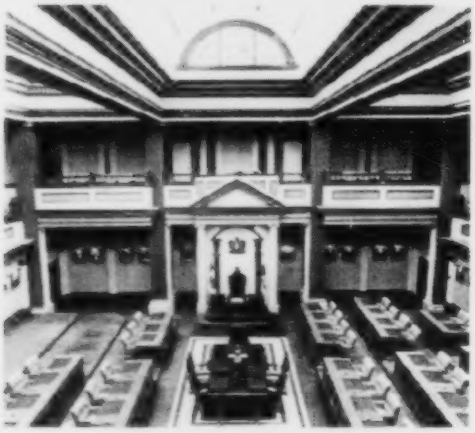
REPORT OF THE AUDITOR GENERAL

To the House of Assembly



Summary

For the Year Ended
31 March 2003

106-00359/

Newfoundland and Labrador

REPORT OF THE AUDITOR GENERAL
(Summary)

To the House of Assembly

for the Year Ended
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Preface

This document is presented as a summary of the *Report of the Auditor General to the House of Assembly on Reviews of Departments and Crown Agencies for the Year Ended 31 March 2003.* That Report contains approximately 600 pages of conclusions, commentary, recommendations and auditees' comments. This document contains summary information on each item included in the Report. When readers identify a topic of interest, we encourage them to read the relevant section in the Report.

Introduction

The *Report of the Auditor General to the House of Assembly on Reviews of Departments and Crown Agencies for the Year Ended 31 March 2003* was prepared in compliance with Section 12 of the *Auditor General Act.* Section 12 requires that the Report outline significant matters noted during the course of examining the accounts of the Province, agencies of the Crown and other entities which, in our opinion, should be brought to the attention of the House of Assembly.

Comments on the audit of the financial statements of the Province are contained in a separate report entitled *Report of the Auditor General to the House of Assembly on the Audit of the Financial Statements of the Province for the Year Ended 31 March 2003* which was submitted to the Speaker of the House of Assembly and released on 18 November 2003.

A report on the operations of the Office of the Auditor General for the year ended 31 March 2003 will be submitted to the Speaker on or before 31 January 2004.

Chapter 1

Reflections of the Auditor General

This Chapter provides an introduction to the Report and provides a summary of certain issues identified by the Auditor General. The issues identified are as follows:

1. Accountability

In my opinion, Members of the House of Assembly are not being provided with the necessary information to assess Government's performance relative to goals and objectives outlined in a strategic plan. In my 2002 Report, I noted that only 1 of the 20 Government departments and 9 of the 83 Crown agencies had an annual report for 2001 tabled in the House of Assembly. Although it is encouraging that, during 2003, Government tabled annual reports for 2002 for all Departments and most Crown agencies, these annual reports did not provide the Members of the House of Assembly with information that they require. The annual reports, for the most part, provided financial information and information on activities - performance information in relation to approved plans was severely lacking. In addition, no strategic plans or annual operational plans were tabled in the House of Assembly.

I believe Government should have a legislative accountability framework which requires that all Government departments and Crown agencies table strategic and annual operational plans, and an annual performance report in the House of Assembly.

2. Legislation

There are two pieces of legislation which set rules relating to the financial operations of Government - the *Public Tender Act* and the *Financial Administration Act*. As in other years, my Office continues to identify instances where Government and its agencies have contravened these Acts.

I am concerned that Government continues to contravene the *Public Tender Act* and the *Financial Administration Act*.

3. Inspections

During the year we reviewed inspection programs related to Government's inspections of food premises, child care facilities and bridges. Inspections are required to be performed to gather sufficient information necessary to make a determination as to whether there is compliance with legislation and Government policy, and whether public health and safety is being compromised. Significant weaknesses were found in the inspection activities reviewed during the year.

I am concerned that Government is not doing a good job with its inspection activities. Government should ensure that sufficient inspections are conducted to make a determination as to whether there is compliance with legislation and Government policy, and whether public health and safety is being compromised.

Chapter 2

Comments on Audits and Additional Examinations

2.1 Audit of the House of Assembly

In May 2000, the *Internal Economy Commission Act* was amended so that the accounts of the House of Assembly were to be audited annually by an auditor appointed by the Commission of Internal Economy. As a result, my Office has not had access to the accounts and records of the House of Assembly since then and the expenditures of the House of Assembly have not been subject to audit for the past four fiscal years.

On 24 June 2003, a public accounting firm was appointed to audit the House of Assembly for the years ended 31 March 2002, 2003 and 2004. However, the audit was not completed before the Public Accounts of the Province were tabled in the House of Assembly.

The fundamental role of the Auditor General is to bring an independent legislative audit and reporting process to bear upon the review of all accounts of the Province and provides an increased level of accountability of Government. Therefore, by not allowing the Auditor General to audit the revenues and expenditures of the House of Assembly, accountability is diminished.

I urge the Members of the House of Assembly to give the Auditor General unrestricted access, in accordance with the *Auditor General Act*, to audit the accounts of the House of Assembly.

2.2 Framework of Accountability

There is no legislative requirement for all Government departments and Crown agencies to prepare and table strategic and operational plans in the House of Assembly or to table performance reports on their activities in comparison to these plans.

During 2002-03 all Government departments as well as 77 of the 85 Crown agencies had some form of annual report for 2001-02 tabled in the House of Assembly. While this represents a significant increase in the number of reports tabled over previous years, the reports that were tabled, in general, did not provide information on the performance of each entity in relation to its approved plans using established measurable criteria. As a result, the entities have not provided the information required to truly demonstrate their accountability to the House of Assembly.

A true accountability process would include more than the tabling of a performance report - it would also require the tabling of strategic and operational plans so that Members of the House of Assembly would have the information necessary to compare an entity's performance in relation to its goals and objectives.

2.3 Special Warrants

The common parliamentary means of providing spending authority to government is through the annual passing of supply acts. This involves having the Members of the House of Assembly vote on the government's funding requests before the spending authority is provided. Approval by a majority of the Members of the House of Assembly is needed to pass an Act.

Through the use of a "special warrant", Government can, without the prior debate and approval of the Members of the House of Assembly, spend public money.

During 2002-03, Government issued 12 special warrants totalling $24.2 million.

One special warrant for $4.0 million approved for the Department of Health and Community Services was issued on 24 March 2003 in contravention of the *Financial Administration Act* in that, in our opinion, there was no urgent requirement for the funds.

The Department of Mines and Energy obtained funding from a special warrant and, in contravention of the *Financial Administration Act*, transferred $45,600 from an account identified in the special warrant to an account within the Department not authorized in the warrant.

2.4 Creation of Crown Agencies and Borrowing without Authority

Crown agencies are generally created by the Legislature under some form of legislation to be an instrument for carrying out public policy on behalf of the Crown. This legislation generally provides authority and direction relating to the mandate, purpose, and responsibility of each entity.

Of the 80 Crown agencies which existed at 31 March 2003, 14 were created under the *Corporations Act* rather than by legislation enacted by the Legislature. If there is to be appropriate legislative control over the creation and operation of Crown agencies and if they are to be held accountable to the House of Assembly, then all Crown agencies should be created under the authority of the Legislature. An act of the Legislature would outline the mandate of a Crown agency and also state its purpose, authority and responsibility. In this way all Members of the House of Assembly would be aware of newly created Crown agencies.

The most recent financial statements of the 14 Crown agencies created under the *Corporations Act* disclosed that 5 of these entities had a total of $111.6 million in outstanding debt due to entities outside of the government reporting entity. If the enabling legislation of an agency does not provide specific authority for it to borrow funds or if it has been created under the *Corporations Act*, then the Crown agency does not have the legislative authority to borrow. The *Financial Administration Act* prohibits the raising of money by way of loan without legislative authority. As a result, these entities contravened the *Financial Administration Act* by borrowing money without legislative authority.

The most recent financial statements of the 4 health and community services boards which were created under the *Health and Community Services Act* disclosed that 2 of these entities had a total of $556,265 in outstanding long-term debt to entities outside of the government reporting entity. The *Health and Community Services Act*, under which these entities were created, does not provide specific authority to borrow. The *Financial Administration Act* prohibits the raising of money by way of loan without legislative authority. As a result, these entities contravened the *Financial Administration Act* by borrowing money without legislative authority.

2.5 Monitoring Expenditures of the Consolidated Revenue Fund

As part of our audit of the financial statements of the Consolidated Revenue Fund (CRF), we perform tests and reviews of the expenditures made by the various departments.

During the past year, we obtained expenditure information from Government's accounting system relating to all expenditures of the Consolidated Revenue Fund. We performed a general review and analysis of amounts paid relating to: grants and subsidies; property, furnishings and equipment; purchased services; professional services; allowances and assistance; and transportation and communications.

The results of our review are presented in Part 2.5 of the *Report of the Auditor General to the House of Assembly on Reviews of Departments and Crown Agencies for the Year Ended 31 March 2003.*

2.6 Monitoring Agencies of the Crown

Section 14 of the *Auditor General Act* requires the auditor of an agency of the Crown or a Crown controlled corporation to deliver to the Auditor General, after completion of the audit, a copy of the auditor's report, audited financial statements and recommendations to management. These financial statements and management letters along with our Office's audits of Crown agencies provide the basis for our monitoring of all Crown agencies.

Of the 82 entities required to prepare annual financial statements, 29 (2002 -32) were audited by our Office while 51 (2002 -53) were audited by private sector auditors. Contrary to their governing legislation, the remaining 2 entities, the Memorial University Foundation and the Newfoundland and Labrador Occupational Therapy Board have never submitted audited financial statements.

As of 30 November 2003, the required audited financial statements had not been received from the private sector auditors for 8 of the 51 entities and the required management letters had not been received for 13 of the 51 entities. Furthermore, the majority of audited financial statements and management letters that were received from the private sector auditors were not received on a timely basis. On average, audits are completed and the auditors' reports signed within three months after the year end. However, in most cases the financial statements and related management letters are not received by our Office until another four months after the audit report date, and often only after follow-up by our Office.

The highlights from our review of audited financial statements and management letters of Crown agencies are presented in Part 2.6 of the *Report of the Auditor General to the House of Assembly on Reviews of Departments and Crown Agencies for the Year Ended 31 March 2003.*

2.7 Accounts and Loans Receivable in Government

At 31 March 2003 Government was owed $465 million of which $218 million is considered to be uncollectible. Our review disclosed that Government has written off $267 million owed to it during the past 12 years. In my opinion, Government does not do a good job of collecting amounts owed to it.

2.8 Avalon East School District

District # 10 - Avalon East School Board has the largest student population of the 11 school boards in the Province. For the 2002-03 school year, the Board provided an educational program to 29,800 students in 65 schools located throughout the eastern Avalon Peninsula, from Holyrood, south to Peter's River and east. For the year ended 30 June 2003, the Board spent approximately $21.1 million to acquire goods and services.

We completed a review in October 2003 of the acquisition of goods and services by the Avalon East School Board. Our review covered the period July 2002 to June 2003. The objective of our review was to determine whether the Board complied with the requirements of the *Public Tender Act* and *Regulations* in its acquisition of goods and services.

We found that the Board contravened the *Public Tender Act* and *Regulations* as follows:

- For 7 purchases totalling $383,235, there were no public tenders.
- For 5 purchases totalling $387,776, which were not tendered for a particular reason, the Minister, and therefore the House of Assembly, was not informed of these exceptions.
- For 2 purchases totalling $164,676, the Board did not follow the spirit and intent of the *Public Tender Act* by issuing tender specifications which were so specific that competition was restricted.
- In 1 instance a tender valued at $29,750 was awarded to a non-compliant bidder in that the contractor did not meet the tender specifications which required that snow clearing equipment have a minimum horsepower and capacity.
- For 9 purchases totalling $44,490, the Board neither obtained three quotations nor provided documentation that a fair reasonable price was established.
- There were a number of issues relating to the lack of documentation required by the *Regulations*. For example, tender files did not always contain evidence of the day and time that a bid was received, whether the tenders were opened at the time advertised, and whether two people were present when the tenders were opened.

We identified 3 instances where the Board paid $11,223 more than the required tender or quoted amount. As a result of our finding the Board subsequently recovered $8,520 of this amount.

2.9 Avalon West School District

District # 9 - Avalon West School Board has the second largest student population of the 11 school boards in the Province. For the 2002-03 school year the Board provided an educational program to 9,571 students in 32 schools located throughout the western half of the Avalon Peninsula, from Southern Harbour, east to Holyrood and south to Peter's River. For the year ended 30 June 2003 the Board spent approximately $8.7 million to acquire goods and services.

We completed a review in October 2003 of the acquisition of goods and services by the Avalon West School Board. Our review covered the period July 2002 to June 2003. The objective of our review was to determine whether the Board complied with the requirements of the *Public Tender Act* and *Regulations* in its acquisition of goods and services.

We found that the Board contravened the *Public Tender Act* and *Regulations* as follows:

- For 7 purchases totalling $259,953, there were no public tenders.
- For 3 purchases totalling $39,190, which were not tendered for a particular reason, the Minister, and therefore the House of Assembly, was not informed of these exceptions.
- For 3 purchases totalling $87,525, the Board did not follow the spirit and intent of the *Public Tender Act* by issuing tender specifications in 2 instances which referred to a specific model and in 1 instance by issuing tender specifications which were so specific that competition was restricted.
- For 6 purchases totalling $25,685, the Board neither obtained three quotations nor provided documentation that a fair and reasonable price was established.

- There were a number of issues relating to the lack of documentation required by the *Regulations*. For example, tender files did not always contain evidence of the time and date that a bid was received and whether two people were present when the tenders were opened.

The Board has purchased equipment through financing arrangements totalling $273,355 without obtaining the prior approval of the Minister of Education as required by the *Schools Act, 1997*.

2.10 Labrador School District

District #1 Labrador School Board, for the 2002-03 school year, provided an educational program to 4,970 students in 19 schools located throughout Labrador.

The Board does not always operate within its budget as evidenced by the fact that the Board has incurred operating deficits in four of the six fiscal years since it was created. As at 30 June 2002, the Board had an accumulated deficit of $6.5 million. The Board has never received the prior approval of the Minister of Education to incur these deficits as required by the *Schools Act, 1997*.

At 30 June 2002, the Board had a $1.0 million bank loan and had also borrowed approximately $71,000 to purchase two vehicles. The Board did not receive the approval of the Minister of Education prior to incurring this debt as required by the *Schools Act, 1997*.

The Board is not complying with the *Public Tender Act*. Thirty-two purchases totalling $835,647 were made without the required public tender call.

The Board has no documented policies relating to either the acquisition of goods and services or other expenditures such as travel. We found that existing controls in this area were not adequate. For example: purchase orders were not always used; invoices were not always stamped as paid; amounts charged on invoices were not always checked to quoted prices before payment; travel claims were not always approved by the next level of management; and officials could not demonstrate whether all amounts paid relating to the use of Board credit cards were for Board business.

The Board has no documented policies relating to capital assets, which at 30 June 2002 amounted to approximately $42 million. Controls over capital assets were not adequate in that there was no capital asset ledger and assets were not tagged or periodically accounted for.

2.11 Monitoring School Boards

In 1996 the school system in the Province was reorganized with the dissolution of 27 church run school boards and the creation of 10 new English language school boards and one French language school board. As at 31 December 1996, there were approximately 445 schools in the Province with a total enrolment of 110,450 students. There were 317 schools in the Province for the 2002-03 school year with a total enrolment of 84,268 students.

As part of our audit work, we continue to monitor the financial position and annual operating results of the 11 school boards.

The combined financial position of the 11 school boards at 30 June 2003 shows a total accumulated deficit of $134.899 million, a 7% increase from the $126.467 million reported at 30 June 2002. All 11 boards reported increases in accumulated deficits for 2003. These accumulated deficits will eventually have to be funded by Government.

Provincial funding has increased from $528.188 million in 2002 to $554.381 million in 2003 and during this period, annual operating deficits have increased from $2.048 million to $7.247 million. Although 10 boards reported an annual operating deficit during the year, only District 7 had a deficit which was less than that reported in 2002.

At 30 June 2003, 6 of the 11 boards were in contravention of the *Schools Act, 1997* in that they incurred operating deficits, other than related to the accrual of severance and leave, without the approval of the Minister of Education.

2.12 Direct Equity Tax Credit Program

The Direct Equity Tax Credit Program was developed to encourage private investment in new or expanding small businesses as a means of creating new jobs and diversifying the economy throughout the Province. The Program provides a Provincial income tax credit ranging from 20% to 35% of the eligible investment to individuals who invest as shareholders in eligible small business activities. The maximum investment a business can receive through the Program is $700,000 and the maximum annual tax credit per investor is $50,000.

The Program is fully administered by the Department of Finance - Tax Administration division and is governed by the *Direct Equity Tax Credit Regulations* of the *Income Tax Act, 2000*.

Our review of the Program indicated that improvements are required in the approval of applications as well as in monitoring and reporting of Program activities. In particular:

- Documentation required to be provided by applicants under the *Regulations* was not always obtained prior to applications being approved.
- Annual financial statements, compliance statements, and other information required to be provided under the *Regulations* to monitor eligible businesses were not always received or were received late.
- While the Department does maintain statistical information on Program activities, it does not gather any information on the effects of the Program on such factors as employment or economic spin-offs, which could be used to determine whether the Program is meeting its objective of encouraging private investment in new or expanding small businesses as a means of creating new jobs and diversifying the economy throughout the Province.

Although the Program does not involve an expenditure of funds by a Government department, the Program does result in a reduction in Provincial taxation revenue. While tax credits issued under the Program reduce income tax revenue for the Province, the total amount of these tax credits is not reported to the House of Assembly. Therefore, Members of the House of Assembly do not receive adequate information on the costs of the Program, which to May 2003, totalled approximately $611,000.

2.13 Newfoundland and Labrador Farm Products Corporation

In October 1997, the operations of Newfoundland and Labrador Farm Products Corporation in St. John's were privatized and Integrated Poultry Limited (IPL) became the operator. In February 2000, IPL went into receivership and in March 2000, the assets were sold by the receiver to Country Ribbon Inc.. As part of this sale, in March 2000 the Province entered into an agreement with Country Ribbon Inc.. This agreement had a number of conditions, including one that stated that the company would not seek any loan guarantees, grants or other forms of financial assistance from the Province in respect of the purchase of the business or in respect of the operation of the business to the end of the agreement on 9 March 2005.

However, in March 2003 Government gave approval for Country Ribbon Inc. to assign chicken quotas as security for raising long-term capital, in July 2003 Government provided a loan of $1.9 million for the purchase of grain, and in November 2003 Government provided financial assistance of $2.6 million. The $2.6 million was provided in exchange for shares in the company and at the same time, the $1.9 million loan from July 2003 was converted into shares.

2.14 Newfoundland and Labrador Liquor Corporation

The Newfoundland and Labrador Liquor Corporation (the Corporation) is an agency of the Crown incorporated under the *Liquor Corporation Act* of the Province of Newfoundland and Labrador. In 2003, the Corporation paid $93 million to the Province's Consolidated Revenue Fund.

Financial Position and Operating Results

There is an issue with the inventory levels maintained by the Corporation. During the five years ended 31 March 2003, the Corporation's inventory turnover rate averaged approximately 2 times per year. This would suggest that the inventory level maintained by the Corporation is much too high or that the Corporation maintains a considerable amount of slower moving stock. Inventory levels and turnover has been considered by the Corporation and a new point of sale system is expected to help determine the types and optimum levels of inventories.

Renovations

As of 18 November 2003, the renovations at the Corporation's Head Office were still ongoing and actual costs totalled approximately $2.57 million. Corporation officials indicated that the renovations are expected to be completed on schedule at an expected cost of approximately $3.14 million.

The Corporation's Board did not approve an overall plan to renovate its Head Office, nor were regular updates provided to the Board on the status of the renovation project.

The Corporation spent a significant amount of public money on several purchases which could be considered as being excessive. For example, furniture for one of the executive offices cost approximately $31,000 and "high-end" audio visual equipment costing approximately $180,000 was purchased for the boardroom and training room.

Public Tender Act

The Corporation did not always comply with the requirements of the *Public Tender Act* as follows:

- There were 5 instances totalling more than $1.9 million where the Corporation did not call public tenders for goods and services.

- Change orders for increases in the original contracts were not approved in accordance with the requirements of the *Public Tender Act*.

Marketing

During the fiscal year ended 31 March 2003 the Corporation spent approximately $987,000 on marketing its products. Marketing expenditures include such items as advertising and marketing campaigns, hosting the annual wine show, participating in a rum festival, maintaining the Mile One Corporate Box, provincial and national sales agents, and the annual golf tournament. Our review indicated issues with these expenditures as follows:

- The Corporation does not call public proposals for its various marketing campaigns. Instead, Corporation officials indicated that proposals are requested from firms they consider would be qualified to complete the required work. It was further indicated that while strengths and weaknesses of proposals received are considered, no formal process is in place to evaluate, rank and select proposals received for marketing campaigns.

  Furthermore, there are no contracts in place to outline the role, responsibilities and accountabilities of these firms.

- In June 2001, the Corporation entered into a four year contract for a Corporate Box at Mile One Stadium in St. John's. During the year the Corporation spent $66,551 relating to the use of this Box. There was no cost-benefit analysis prepared to support the need for the Box, there was no reference to the Box in the Corporation's 2002-03 or 2003-04 Business Plans and the Corporation has not established any goals and objectives relating to the Box.

  The records maintained by the Corporation for the Corporate Box do not indicate specifically who attended a given event. Of the 108 events attended during 2002 and 2003, 44 were attended by either members of the Board of Directors, Corporation Executive or Corporation staff. It is not clear how usage by those groups contributes to the Corporation's marketing strategy.

- The Corporation uses the services of Provincial and National sales agents as well as sales agents in other provinces. During the year ended 2002-03, these agents were paid a total of $186,000. We found that the Corporation is not calling for proposals for the provision of these services and there were no signed contracts in place for any of these sales agents.

Agency Stores

The Corporation issues a public proposal call for the selection of agency store operators. Although the proposals relating to agency stores are reviewed by two regional managers and the Corporation's internal audit group, we were informed by officials that they were directed not to make any recommendation to the Board of Directors as to the ranking of each bid and which bid Corporation officials felt was the most appropriate based on the analysis completed.

Instead, the Board is provided with information on all applicants and the financial analysis that results from the review process, and it makes a decision based on this information which is then forwarded to the Minister of Finance for final approval. The reasons for the Board's selection are not documented. As a result, the selection process used by the Corporation is not transparent and is not based on an objective assessment of how each applicant meets qualifying criteria.

At the time of our review, there were no signed contracts in place for 36 of the 44 agency store files that we reviewed.

Retail Stores

The Corporation did not complete market studies or otherwise make use of any defined process to analyze the need for the three new stores that were opened in St. John's, Mount Pearl and Stephenville during the period of our review. Corporation officials indicated that the decision to open new retail stores is generally initiated by the Corporation's Executive based on their knowledge.

Payments made by the Corporation under lease agreements for the three new stores were not consistent with the terms contained in the successful tender bids. As a result, the Corporation was paying approximately $37,000 per year in excess of the amounts specified in the tender bids. The Corporation has since ceased paying these additional costs.

Other Expenditure Issues

There were a number of issues identified during our testing of expenditures as follows:

- Entertainment expenses totalling $19,900 claimed by the President and $8,400 claimed by the Chief of Operations did not have sufficient documentation to demonstrate that the expenses claimed were for Corporation business.

- Contrary to it's travel policy, the Corporation paid $3,552 for the spouses of the President and the Chair of the Board of Directors to attend a wine show in New York City and also paid for various conference registration fees for these spouses as well as the spouse of the Director of Enforcement. The Corporation was reimbursed an amount of $990 relating to the cost of the airline ticket for the President's spouse to attend the wine show.

- The Corporation has been using the services of the same engineering firm since the early 1980's to assist in the management of the Corporation's capital construction and renovation projects. The Corporation has not called for proposals since that time and there are no current terms of reference and no current contract in place. The firm was paid approximately $338,000 for the year ending 31 March 2003.

Board of Directors Expenditures

- Contrary to Government's policy for remuneration for Board members, during the year, liquor or other alcoholic beverages with a retail value of approximately $11,500 was provided to the Board. Although a portion of this total relates to an annual Christmas party for the Board, officials could not provide the amount spent for this purpose. We were informed, however, that Board members are provided with a Christmas package that would include these products. Furthermore, much of the liquor or other alcoholic beverages provided were premium brands, some having a retail value of $197 per bottle.

- Of payments totaling $31,920 to the Chairperson of the Board of Directors for the period 13 May 2000 to 31 March 2003, payments of $10,830 were not in accordance with the policies of both the Provincial Government and the Corporation relating to remuneration of board members.

2.15 Province of Newfoundland and Labrador Pooled Pension Fund

The Province of Newfoundland and Labrador Pooled Pension Fund (the Fund) was created on 1 July 1980 under the authority of the *Pensions Funding Act* for the purpose of providing for the funding of the pension plans sponsored by the Province.

Pension Investment Committee and Newvest Realty Corporation

The Pension Investment Committee decided it would create an entity to administer up to $200 million in real estate, comprised of a maximum of $100 million from the Pension Fund, and a maximum of $100 million in mortgages. As a result, Newvest Realty Corporation was formed. The Committee has contracted with Penreal Capital Management Limited Partnership of Ontario to manage the real estate activities.

Newvest, to August 2003, has acquired real estate costing $77.59 million. Our review of the Committee's involvement in directing and controlling the real estate activities of Newvest indicated the following:

- The Pension Investment Committee does not require an independent external appraisal prior to the acquisition of real estate property. In addition, neither the Committee nor the Pensions Division of the Department of Finance have visited any of the real estate properties.

- During our financial statement audit of Newvest Realty Corporation, we identified several operational issues which were reported to the Committee. The Committee was not aware of these issues prior to our work.

Our review also indicated that Newvest Realty Corporation contravened the *Financial Administration Act* by borrowing without legislative authority. This resulted from the Corporation financing real estate purchases for four properties through mortgages totalling $46.62 million.

Pension Plan Deficiencies

Even though Government has committed substantial annual special payments to address pension funding issues ($163.5 million for 2003-04), two of the pension plans will be depleted of assets and require deficiency payments. The Uniformed Services Pension Plan will be the first affected in 2013-14 and will require annual deficiency payments estimated to be approximately $17 million while the Teachers' Pension Plan will require annual deficiency payments commencing in 2015-16 which are estimated to be approximately $200 million. These deficiency payments are in addition to the $60 million annual special payments for the Public Service Pension Plan estimated by the actuary to be required until at least 2031.

Changes in the Unfunded Pension Liability During the Year

The unfunded pension liability represents a significant debt for Government and at 31 March 2003 totalled $3.56 billion. The unfunded pension liability is comprised of the accumulated difference between pension contributions received and pension benefits paid, together with the impact of the Fund's investment activity and any actuarial changes. Although Government has taken some action to address the unfunded pension liability, the liability continues to increase.

Our review of the change in the unfunded pension liability indicated the following:

- During the year, the Fund reported significant decreases in the actuarial value of its assets ($430 million) and a significant increase in the value of its estimated accrued benefit obligation ($748 million). This resulted in an increase of $1.18 billion in the net pension liability.

- With the exception of the Members of the House of Assembly Pension Plan, pension contributions by active members of the plans, together with matching employer contributions, are sufficient to meet current service costs. However, these contributions are not sufficient to meet the pensions costs of individuals who retired prior to the Fund being established.

- The number of pensioners is steadily increasing while the number of active members contributing to the Fund has remained relatively constant. As a result, pension benefits are increasing at a much higher rate than pension contributions. For 2002, pension benefits of $296 million exceeded total contributions of $202 million, excluding special payments of $144 million, by $94 million (or 47%).

- In 1998, Government started to make special payments into the Fund with a view to reducing the unfunded pension liability. Since that time Government has made special payments totalling approximately $840 million. However, these payments are not large enough to reduce the unfunded pension liability - in fact, the unfunded liability over that time increased by over $200 million.

- Interest costs on the unfunded pension liability have increased from $171 million in 1994 to $270 million in 2003, an increase of $99 million (or 58%).

- Over the last two years the Fund, similar to many other large pension funds in Canada, has suffered significant losses on its investments. For the year ended 31 December 2002, the Fund recorded a loss of $73 million on the sale of investments and also recorded a decline of $179 million in the market value of investments held at year end.

2.16 Food Premises Inspections and Licensing

The Department of Health and Community Services has the mandate for some of the programs and services being delivered by the Government Service Centre, including the food premises inspection and licensing program.

The *Food and Drug Act* provides for the inspection of food premises to ensure public safety in relation to the food supply. The *Food Premises Regulations* were enacted under the *Food and Drug Act* to prescribe the manner in which food intended for human consumption should be prepared, packaged, stored, transported, sold, advertised or exposed for sale, and delivered. An integral part of the inspection process of food premises requires that inspectors physically inspect food premises.

Many of the weaknesses identified in the food premises inspection and licensing program during our 1998 review have not been corrected. For example:

The *Food Premises Regulations*

The Government Service Centre could not demonstrate whether food premises were in compliance with all areas of the *Food Premises Regulations* as inspection report forms do not provide the information necessary to make this determination.

There were 317 food premises in the Government Service Centre's database which were operating without a valid license at the time of our review.

Memorandum of Understanding

The Government Service Centre is not fully complying with the Memorandum of Understanding in that:

- Approximately 40% of food premises reviewed were not being inspected at the required frequency. This represents an increase from 1998 when we found that approximately 35% of the food premises tested were not inspected in accordance with the required frequency.

- The Department of Health and Community Services is not being provided with the required reports on program activities by the Government Service Centre.

Policy and Procedures

Our review indicated issues regarding the adequacy of and compliance with policy and procedures and the food premises database as follows:

- Policy and procedures were deficient in several areas, including: no guidance for the inspector in determining the timeframe within which identified non-critical health hazards required correction; no guidance for the inspector with respect to the follow up of food premises that repeatedly violate the *Regulations*; procedures related to the recording, investigating and reporting of food related complaints were not clearly established; and no policy with respect to the proper documentation of follow up inspections.

- The database of food premises is neither current nor accurate.

Our review identified instances of non-compliance with policy and procedures as follows:

- Inspectors did not always provide the food premises operator with the required time frame to correct the identified non-critical health hazard.
- Licences were sometimes issued even though there was no evidence on file to indicate that identified critical health hazards were corrected prior to the license being issued.
- Inspections are not representative of year round operations of the food premises in that they are mainly performed between November and March each year.
- Inspection reports are not always properly completed. For example, reports did not always adequately describe the health hazard and/or the corrective action required.
- Follow up inspections were not always completed to determine whether previously identified health hazards were corrected.

Performance Indicators and Monitoring Procedures

Our review indicated that the Government Service Centre does not adequately monitor the food premises inspection and licensing activities. In particular:

- No operational goals or objectives for the food premises inspection and licensing program have been established and no operational plan is in place.

- There is a lack of matching of resources available with the work that has to be completed because in most regions management does not fully participate in the planning and scheduling of inspection and licensing activity.

- Effective inspection and licensing activity monitoring is not possible because the database used to monitor inspection activity is neither current nor accurate, there is no schedule in place against which to monitor inspection activity, and management does not review completed inspection reports.

2.17 Office of the Commissioner of Petroleum Products Pricing

The Office of the Commissioner of Petroleum Products Pricing was established in May 2001 with a mandate which provides for the establishment of geographic pricing zones throughout the Province and the regulation of maximum pricing for petroleum products at the wholesale and retail levels throughout the Province. In October 2001, the Commissioner announced 14 primary pricing zones and 4 sub-zones, and also set maximum prices for petroleum products in each of these zones.

Our review indicated that:

- The Commissioner did not comply with the requirements of the *Petroleum Products Regulations* in establishing geographic pricing zones and setting maximum prices in that adequate information was not obtained on **historical** prices for petroleum products charged to retailers and consumers throughout the Province and on the **historical** margins between fuel costs and these prices. As a result of not obtaining this information, the Commissioner could not consider, as required by the *Regulations*, those factors and costs that may have explained the differences between **historical** prices and between **historical** margins in establishing geographic pricing zones and maximum prices.

- In 1 instance, the maximum wholesale and retail price for petroleum products set by the Commissioner was incorrectly calculated. In this instance, the maximum wholesale and retail price for diesel fuel in Zone 10 has been understated by 1.725 cents per litre including HST since the first period of price regulation began in October 2001.

- The Commissioner is not adequately monitoring compliance with the *Petroleum Products Act* and *Regulations*. In particular, required contact information has not been provided by all wholesalers and retailers, periodic reports have not been requested from wholesalers and retailers, and no inspections of wholesalers and retailers have been conducted. As a result, the Commissioner did not determine whether wholesalers and retailers are charging more than the established maximum price and did not obtain information on the factors which are influencing the costs of supplying petroleum products throughout the Province.

2.18 Child Care Services

The *Child Care Services Act* and *Child Care Services Regulations* provide the legislative framework for control over the provision of child care services in the Province.

Although the Department of Health and Community Services has overall responsibility for the child care services program, it has not adequately monitored and controlled the delivery of the program. For example, the Department did not release its approved policies relating to the *Child Care Services Act* and *Regulations* until November 2001, 29 months after the *Act* came into force.

As well, while the Department receives an annual report from each of the regional health and community services boards, these annual reports are on the overall operations of the regional boards and are not specific to the child care services program. The Department also receives monthly statistical reports from each of the regional health and community services boards; however, these reports do not include any information relating to visits by regional staff to monitor the operations of the child care facilities.

Identification of Providers of Child Care Services

Neither the St. John's Regional Health and Community Services Board nor the Western Regional Health and Community Services Board take the initiative to actively investigate whether there are any unlicensed child care service providers in their region. Instead, investigation of unlicensed providers is only performed in response to complaints received. Although complaints in the St. John's region are investigated, since June 1999 the Western Board has not conducted any on-site investigations resulting from complaints received.

Licensing of Child Care Facilities

Although licences are being issued to child care facilities, there are many instances where there is no evidence on file to indicate whether all licensing requirements outlined in the *Child Care Services Act* and *Regulations* were met. For example: for 16 facilities there was no evidence on file to indicate that staff had the required current certificate of conduct, first aid certificate, or immunization records; and for 21 facilities the required liability insurance had expired, the Province was not listed as an insured party as required, or the insurance policy did not provide coverage for the maximum number of children for which the centre was licensed. There was also 1 facility for which there was no evidence on file to show that any of the licensing requirements were met.

The *Child Care Services Act* was not complied with in that the two family child care agencies associated with the St. John's and Western regional boards were not licensed as required when they commenced operations in 2000. In fact, one agency was not licensed until 15 April 2003 and the other was not licensed until 11 June 2003. These agencies are responsible to ensure that all of the 33 affiliated family child care homes meet the requirements of the *Child Care Services Act* and *Child Care Services Regulations*.

Monitoring Providers of Child Care Services

Although policy requires that a formal annual evaluation be prepared for each facility, we found that in St. John's, none of the required annual evaluations were prepared. Furthermore, although policy requires that monthly visits be conducted where possible, we found instances at both Boards where these monthly visits were not conducted.

As a result of the monitoring that was performed, violation orders were issued for matters such as: a 5 year old child was left unattended in a van in a supermarket parking lot; a 3 year old child was left unattended outside a centre; a child was administered medication, not as prescribed, resulting in an overdose; a bus driver did not have the required driver's licence or current certificate of conduct; food was not handled as required; the ratio of children to staff was exceeded; and a child younger than the licence age restriction was at a centre. We found instances where there was inadequate documentation to support the final resolution of the violations identified.

Violation orders are not always issued when warranted. For example, there were 4 centres which had a combined total of 31 health and safety violations for which no violation orders were issued as of March 2003. These violations included such things as: children left unattended; fire exit blocked; garbage left uncovered; emergency lighting not working; inadequate food servings; child to staff ratio exceeded; and lack of cleanliness. Discussions with Board officials indicated that any violation involving a child left unattended would be serious enough to have a violation order served and posted.

Inspections of Child Care Facilities

The required annual fire, life and safety, and environmental health inspections are not always being conducted by the Department of Government Services and Lands. For example, there were 20 facilities (17 family child care homes and 3 child care centres) known to be in operation but not included in the Department's database. Therefore, these facilities were not subjected to the required annual inspection. Furthermore, for the facilities included in the database and required to be inspected, we found that 45 did not have the required annual fire, life and safety inspection conducted since February 2002 and of these, 7 had not been inspected since February 2001. In addition, we found that 77 did not have an environmental health inspection conducted since February 2002 and of these, 7 had not been inspected since February 2001, and for 16, the database does not indicate any inspection ever having been conducted.

2.19 Eastern Health and Community Services Board

The Eastern Health and Community Services Board (the Board) was established 1 January 1996 and operates under the authority of the *Health and Community Services Act.*

Financial Operations

Since the Board commenced operations in 1996 its financial position has deteriorated to the point where it had an accumulated deficit of $8.0 million at 31 March 2003. The Board has had operating deficits each year ranging in amounts from $15,650 in 2002-03 to $3.4 million in 2000-01.

The Board's financial operations are monitored throughout the year through monthly variance reports of actual and budgeted expenditures; however, there are issues relating to the Board's budget as follows:

- The Board's budget is not normally approved by the Department of Health and Community Services until well into the fiscal year; therefore, the flexibility to take action to stay within the budget is reduced.

- Each year the Board submits a budget based on the expected costs and normally results in a deficit since Provincial funding is insufficient to cover projected costs. The Board, however, operates with the premise that additional funding or program direction will be provided by the Province. Although in most cases this funding is eventually provided, usually in March, this results in a budget system where deficits will occur if additional funding is not provided and steps are not taken to reduce costs to the available funding level.

Home Support Programs

A major contributor to the Board's deficit has been the increase in direct client costs for the home support for seniors program and the home support for adult developmentally delayed and physically disabled programs. Costs for these programs were $15.6 million or 34.4% of total Board expenses in 2002-03.

The Board's ability to manage home support program costs is made more difficult as a result of the limitations of its management information systems to provide all of the financial information necessary to monitor and control program costs.

The $13.9 million of direct home support costs in 2002-03 represents an increase of 56% over direct home support costs of $8.9 million in 1998-99. Our review of these programs identified the following:

- Home support program expenditures are not adequately monitored and controlled. Expenditures are made using four different payment systems and monitored through a manual system that is difficult to maintain, does not include all costs, is susceptible to errors and does not provide the total annual costs on a client basis.

- The required annual client assessments relating to the type of care and level of support for clients of the programs were not always reviewed. As a result, there are instances where the level of service was reduced without explanation.

- The required financial assessments to determine the clients' contribution were not always accurate or prepared on a timely basis. As a result, the Board cannot be certain that all clients are making the proper financial contribution towards the service being provided.

- The largest expenditure under these programs was the salaries of home support workers; however, there was not always adequate support such as time sheets to ensure the client was receiving the level of care being assessed and paid for. As a result, there are instances where payments are being made by the Board without adequate support to demonstrate that the client actually received the services or goods being billed and also whether the client was entitled to receive the services or goods.

2.20 Western Regional Health and Community Services Board

The Western Regional Health and Community Services Board (the Board) was established 1 January 1996 and operates under the authority of the *Health and Community Services Act*.

Financial Operations

Since the Board commenced operations in 1996 its financial position has deteriorated to the point where it had an accumulated deficit of $4.0 million at 31 March 2003. The Board has had operating deficits in each of the last five years ranging in amounts from $0.3 million in 2003 to $1.1 million in 2002 and 2001.

The Board's financial operations are monitored throughout the year through monthly variance reports of actual and budgeted expenditures; however, there are issues relating to the Board's budget as follows:

- The Board's budget is not being approved by the Department of Health and Community Services until well into the fiscal year; therefore, the flexibility to take action to stay within the budget is reduced.

- Each year the Board submits a budget based on the expected costs and normally results in a deficit since Provincial funding is insufficient to cover the projected costs. The Board, however, operates under the premise that additional funding will be provided by the Province. Although in most instances this funding is eventually provided, usually in March, this results in a budget system where deficits will occur if the additional funding is not provided and steps are not taken to reduce costs to the available funding level.

Home Support Programs

A major contributor to the increasing deficit has been the increase in direct client costs for the home support for seniors program and the home support programs for mentally and physically challenged adults. Costs for these programs were $10.9 million or 29% of total Board expenses in 2002-03.

The Board's ability to manage home support program costs is made more difficult as a result of the limitations of its management information systems to provide all of the financial information necessary to monitor and control program costs.

The $8.9 million of direct home support costs in 2003 represent an increase of 98% over the direct home support costs of $4.5 million in 1997-98. Our review of these programs identified the following:

- Home support program expenditures were not adequately monitored and controlled. Expenditures were made through three different payment systems and, as a result, individual client costs were not readily available.
- The required annual client assessment relating to the type of care and level of support for clients of the programs for adults is not always completed. The assessments relating to the program for seniors were not always fully completed or approved. As a result there are instances of inadequate support for the type and level of service being assessed and provided.
- One client was funded $275,000 under the programs for adults even though the client did not meet the eligibility criteria as set out in Board policy for the type of care being provided i.e co-operative apartment arrangement.

The required annual financial assessments to determine the clients' contribution were not always completed accurately and were not always accompanied by the required documentation. As a result the Board cannot be certain that all clients are making the proper financial contribution towards the service being provided.

- We found that there was not always adequate documentation to support expenditures. For example, time sheets to support the level of care being assessed and paid for were not on file, in addition, monthly allowances for items such as community access and personal expenses were not always adequately supported. Furthermore, once the monthly allowances were approved they continued to be paid each year without a review to determine whether the allowance continued to be required. As a result, there are instances where payments are being made by the Board without adequate support to demonstrate that the client actually received the services or goods being billed and also whether the client was entitled to receive the services or goods.

- Reconciliations between allowances paid and the actual costs incurred by clients to identify over and under payments were not always completed as required. There were instances where reconciliations were inaccurate, not submitted on a timely basis, lacked the required detail and, furthermore, over and under payments identified during the process were not always settled on a timely basis.

- Policies and procedures relating to the home support programs for adults were incomplete and outdated.

2.21 Medical Care Plan Beneficiary Registration System

The Newfoundland Medical Care Plan was introduced in Newfoundland and Labrador on 1 April 1969. For the year ended 31 March 2003, payments under this system totalled $206.5 million. Upon approval by the Department of Health and Community Services of an application for coverage under the Medical Care Plan, the person is issued a beneficiary card. This card contains a unique and usually lifetime identification number and provides access to coverage under the Medical Care Plan.

Due to weaknesses in controls over beneficiary registration, the lack of security features contained in beneficiary cards, and weaknesses over monitoring claims paid, there could be a significant cost to the Province associated with the payment of ineligible claims. Specifically:

- Controls over the Medical Care Plan registration process require improvement in that the Department currently accepts photocopies of original documents which can be easily altered or falsified. In addition, information on applications processed relating to annual newborns is not validated with provincial vital statistics registries to ensure applicants are eligible to receive coverage under the Plan. For example, in 2002-03, 5,500 applications relating to newborns were processed without validation with provincial vital statistics registries.

- The beneficiary card requires improvements in that it only contains the beneficiary name and number, and does not provide adequate safeguards to identify the user in order to ensure that only eligible beneficiaries receive medical services. As well, the Province has never re-registered beneficiaries and the cards that were issued in 1969 when the Plan was introduced are still valid today. As a result, the Department cannot ensure that only eligible beneficiaries receive medical services.

- At December 2002, there were 81,350 more beneficiary numbers issued than there were residents in the Province. Although some of the difference may be accounted for by various factors including deceased card holders whose deaths have not been reported to the Department, and former residents who have left the Province, the Department does not have the information necessary to determine this. The Department cannot determine how much, if any, has been paid on behalf of ineligible beneficiaries.

- In 2003, $320,000 and in 2002, $318,000 was paid for out-of-province medical care services relating to terminated or invalid beneficiary numbers because the Department is required under reciprocal billing arrangements to pay for these medical services.

- At December 2002, there were 371,144 cards that had been designated as terminated in the Registration System and which could be used in any other province or territory of Canada. This highlights the need for the Department to institute stronger controls over its cards by the use of expiry dates, unique identifiers and requiring periodic re-registration.

- The Department is not adequately investigating why payments are made for out-of-province medical services for individuals who are not eligible for coverage under the Province's Medical Care Plan. Although monthly reports are produced which are designed to determine beneficiary eligibility relating to out-of-province payments, at the time of our review in March 2003 the Department had only contacted beneficiaries listed in its May 2002 report and no work has been started on the monthly reports generated since that time.

2.22 Monitoring Health and Community Services Boards

There are four health and community services boards in the Province comprised of St. John's, Eastern, Central and Western Regions. Each of these boards has local offices throughout the Province. Health and Community Services in Northern Newfoundland and Labrador are administered as separate components of the Grenfell Regional Health Services Board and the Health Labrador Corporation, respectively.

As a part of our audit work, we continue to monitor the financial position and annual operating results of the four community services boards.

The combined financial position of the four health and community service boards at 31 March 2003 shows total unfunded liabilities of $23.7 million, a 158% increase from the $9.2 million reported in 1999-00. These net unfunded liabilities will eventually have to be funded by Government.

The St. John's Regional Health and Community Services Board had total unfunded liabilities of $10.2 million and accounts for 43% of the $23.7 million total reported for 2002-03. The St. John's Regional Health and Community Services Board's unfunded liabilities have increased by 112% from $4.8 million in 1999-00 to $10.2 million in 2002-03. The change in the unfunded liabilities of the other three boards showed some improvement during the year.

Provincial funding has increased from $149.7 million in 1999-00 to $200.0 million in 2002-03 and during this period, annual operating deficits have decreased from $4.6 million in 1999-00 to $1.2 million in 2002-03. Although all boards reported an annual operating deficit during the year, the deficits were less than those reported in 2001-02.

At 31 March 2003, two of the health and community services boards were in contravention of the *Financial Administration Act* in that they had long-term debt totalling $556,265 to entities outside of the government reporting entity. The $556,265 was comprised of $459,301 in long-term debt for the St. John's Regional Health and Community Services Board and $96,964 in long-term debt for the Eastern Health and Community Services Board.

2.23 Monitoring Hospital Boards

From 1 November 1994 to 1 January 1996 the Government of Newfoundland and Labrador established eight regional health care institutions boards to administer health care facilities in Newfoundland and Labrador. These boards took over the facilities previously administered by many small local boards.

The financial position of the eight hospital boards has been deteriorating over the past several years. In an effort to control operating deficits, boards have implemented changes to reduce costs and Government has provided additional funding. As a part of our audit work, we continue to monitor the financial position and annual operating results of the eight hospital boards.

The combined financial position of the eight hospital boards at 31 March 2003 shows total unfunded liabilities of $424.4 million, a 48% increase from the $286.0 million reported in 1999-00. These net unfunded liabilities will eventually have to be funded by Government.

All eight boards reported increases in the total unfunded liabilities for 2002-03. In particular, the total unfunded liabilities for the Health Care Corporation of St. John's was $233.4 million and accounts for

55% of the $424.4 million total reported by all eight boards for 2002-03. The total unfunded liabilities of the Health Care Corporation of St. John's have increased by 36% from $171.4 million in 1999-00 to $233.4 million in 2002-03.

Provincial funding has increased from $651.6 million in 1999-00 to $857.4 million in 2002-03 and during this period, annual operating deficits have decreased from $33.6 million in 1999-00 to $18.9 million in 2002-03. Although all boards reported an annual operating deficit during the year, three boards had deficits which were less than those reported in 2001-02 (Avalon, Western, and Labrador).

2.24 Coast of Bays Corporation

In March 2003, the Public Accounts Committee made a resolution that *"... the Auditor General be asked to consider performing an audit of the Regional Economic Development Boards in the Province ..."*. Further to this resolution, I performed an audit of three zonal boards during the year. As requested by the Public Accounts Committee, the results of my work are included in my Annual Report to the House of Assembly on Reviews of Departments and Crown Agencies.

The Coast of Bays Corporation was incorporated in 1996. The Corporation covers an area on the island's south coast, including 22 communities, with a combined population of 8,538 (2001).

The Corporation receives its funding from the Federal and Provincial governments. Approximately $1.2 million in funding was received relating to administration expenses since the Corporation's inception in 1996, while $640,000 was received to fund initiatives in accordance with the Corporation's strategic economic plan.

Our review indicated that the Corporation is not always publicly tendering for goods and services, is not fully complying with its performance contract with the Provincial government, and requires improvements in controls in several areas. Specifically:

- **Purchasing Practices.** The Corporation's purchasing policies were not being followed. For example:

    - Although the Board's policy is that any expenditures in excess of $7,500 are to be publicly tendered, we found instances where such purchases were not tendered. The Corporation acquired a vehicle costing $25,742, had road construction work completed at a cost of $12,709, and had engineering work completed at a cost of $11,491 - all without a public tender call.

      In two instances, the Corporation did not have sufficient documentation on file to support how the bids received were analysed and whether the best bid was accepted. One instance related to office space rented for $9,840 per annum while the other related to a project requiring boat rental and diving costs totalling $11,200.

    - Although the Board has a policy whereby three written quotes must be obtained from potential suppliers of goods or services that exceed $1,000 per item, we found instances totalling $22,983 where the required three written quotes were not obtained.

- **Compliance with Authorities.** The Corporation has not fully complied with the requirements of its performance contract with the Federal and Provincial governments. The Corporation purchased a vehicle costing $25,742, increased an employee's salary by $1,000, and spent $4,557 on gifts and Christmas parties. These were not direct operating expenditures as defined in the contract and therefore would have required specific approval from the Management Committee. No such approval was obtained. Also, the Corporation did not provide the required information to the Management Committee on economic activities.

  The Corporation opened a bank account for the purchase of the vehicle in an attempt to circumvent the performance contract which did not permit such a purchase. Monthly payments of $839 are being made from this account over a three year period starting in September 2001. Deposits for this account resulted from charges to the project and operating accounts for the use of the vehicle and other assets as well as surplus funds from an aquaculture project.

The Corporation is required to repay any unexpended operational funds promptly and in any event within 30 days of written notice by the Management Committee. The Corporation has not remitted any unexpended operational funds and furthermore, the Corporation has not received written notification requesting that the amounts be repaid.

- **Planning, Monitoring and Reporting.** While the Board does receive some information on the status of how projects are proceeding when it meets, we found that there was insufficient information provided by Corporation officials at these meetings to enable the Board to monitor how resources were utilized in meeting stated objectives contained in work plans and the Strategic Economic Plan.

  There is no annual evaluation undertaken by Corporation officials of the various initiatives and projects which could be used by the Board to determine whether the initiatives or projects achieved the intended results and contributed to planned objectives.

- **Controls and Expenditures.** In addition to the public tender issues identified above, we found issues relating to the following:

  - travel claims lacked complete documentation, were not always either signed by the claimant or approved, and there were duplicate travel claim payments;

  - we identified 30 purchases totalling $1,364 made with the Corporate Visa card where documentation was inadequate to support the expenditure;

  - the control log to record usage of the vehicle is not complete in that 11,400 kilometres of the 52,000 kilometres recorded on the vehicle were not accounted for; and

  - unused cheques are sometimes pre-signed and bank reconciliations are not independently reviewed.

- **Project Administration.** There were a number of issues identified relating to project administration. In one project, the Corporation paid a consultant $88,000 for work which was later deemed unusable. In this case, another consultant was paid $11,491 to complete the required work. In another project, the Corporation spent $51,827 to construct a road and wharf, the road portion of which was later found to be unusable and will have to be moved at an additional estimated cost of $10,323.

  The Corporation has commenced a process towards the construction of an Arts and Exploration Centre in the Coast of Bays Region. The Centre is estimated to cost $1.6 million and will be funded primarily by the Federal Government. The ongoing operating and maintenance costs will be the responsibility of the Board. The construction of this property and responsibility for ongoing operating and maintenance costs is not consistent with the Corporation's existing mandate.

- **Human Resources.** Contrary to the Corporation's policy, three staff positions were filled without a public job competition. Furthermore, not all job competition files contained sufficient information to establish how the successful candidates were determined. In one instance, a job competition file could not be located. Attendance records are not maintained and annual performance evaluations are not performed.

- **Capital Assets.** The Corporation does not have a complete and accurate record of its capital assets.

2.25 Discovery Regional Development Board Inc.

In March 2003, the Public Accounts Committee made a resolution that "... *the Auditor General be asked to consider performing an audit of the Regional Economic Development Boards in the Province* ...". Further to this resolution, I performed an audit of three zonal boards during the year. As requested by the Public Accounts Committee, the results of my work are included in my Annual Report to the House of Assembly on Reviews of Departments and Crown Agencies.

The Discovery Regional Development Board Inc. was incorporated in May 1996. The Corporation covers an area on the island's east coast, including 109 communities, with a combined population of approximately 33,470 (1996).

The Corporation receives its funding from the Federal and Provincial governments. Due to the lack of externally prepared financial statements for all years since the Corporation's inception in May 1996, we were unable to determine the total funding received relating to administration expenses since the Corporation's inception or the amount received to fund initiatives in accordance with the Corporation's strategic economic plan.

Our review indicated that the Corporation did not always publicly tender for goods and services, did not fully comply with its performance contract with the Federal and Provincial governments, and that improvements in controls are required in several areas. Specifically:

- **Property Purchase.** One item of particular concern resulting from our review relates to the purchase of a property by the Discovery Opportunity Centre Inc. (DOC). The DOC was a company established by the Corporation for this purpose. The property was intended to provide rental accommodations for the local IT sector as well as for Corporation administrative and program staff. The property was purchased in July 2000 for $82,645 with an estimate of $519,500 for extensive renovations. Based on the most recent information available, the DOC owes $740,824 relating to the property purchase and renovations, consisting of $51,519 for the bank mortgage, $449,416 relating to the second mortgage with the building materials supplier and $239,889 relating to other creditors.

Our review of the Corporation's involvement with the DOC property indicated the following

- The Corporation violated the terms of the performance contract by indirectly purchasing the DOC property. The establishment of the DOC, to enable the purchase and renovation of the DOC property, was designed by the Corporation in an attempt to circumvent the performance contract which did not permit such activities. The performance contract indicates that funding is provided to cover eligible direct operating costs and, in cases where deviations from eligible expenses are going to be made, requires that written approval of the Federal/Provincial Management Committee be obtained. No such written approval was provided.

- No public tender was called for the purchase of the initial property which cost $82,645, and no information was provided that would suggest the Corporation considered other methods of securing the required accommodations. Therefore, the Corporation could not demonstrate whether the most appropriate space was obtained at the best price.

- No public tenders were called for any of the goods and services acquired during the renovation.

- Expenditures totalling $46,050 were incurred by the Corporation on behalf of the DOC.

- At the time of our review, renovations on the building had not been completed, the lone remaining IT sector tenant which had occupied some of the space had left, all former DOC Board Directors except the former President of the

Corporation had resigned and a total of $740,824 was owing to creditors.

- **Planning, Monitoring and Reporting.** No new long-term Strategic Economic Plan was developed to replace the original plan prepared in 1997 and which expired in 2002. Without a long-term strategic plan to provide a focus, it was difficult for the Corporation to demonstrate how annual initiatives contributed to any long-term objectives.

  Also, while the Board did receive some information on the status of how projects were proceeding when it met, we found that there was insufficient information provided by Corporation officials at those meetings to enable the Board to monitor how resources were utilized in meeting stated objectives contained in work plans and the Strategic Economic Plan which expired in 2002.

  As well, there was no annual evaluation undertaken by Corporation officials of the various initiatives and projects which could have been used by the Board to determine whether the initiatives or projects achieved the intended results and contributed to planned objectives.

- **Compliance with Performance Contract.** The Corporation receives its funding based on a performance contract with the Federal and Provincial governments. We found that the Corporation had not fully complied with the requirements of this contract. Most notable is the indirect purchase of the DOC property referred to above, which was not an eligible cost under the performance contract.

  The Corporation is required to repay any unexpended operational funds promptly and in any event within 30 days of written notice by the Management Committee. However, the Corporation had not remitted any unexpended operational funds and furthermore, the Corporation had not received written notification requesting that the amounts be repaid.

- **Controls and Expenditures.** Although not documented as being Board policy, Corporation staff indicated that the Corporation follows the *Public Tender Act* in acquiring goods and services. Given that the DOC was established by the Corporation, we also used the *Public Tender Act* as a reference in reviewing the purchasing practices used by the DOC.

  We found that in relation to the DOC property purchase no public tenders were called for purchases in excess of $10,000. We also found instances related to the property purchase and other Corporation purchases, where three written quotes were not obtained for purchases of less than $10,000.

  Our review also identified issues with respect to documentation and payment of travel claims. Of particular concern was a notification the Board received in July 2002, from the Atlantic Canada Opportunities Agency (ACOA), of irregularities in travel claims by two of the Corporation's Board members. Corporation staff informed us that the two Board members in question were found to be submitting travel claims to two ACOA funded boards for the same travel. In September 2002, the Board decided to suspend the two Board members indefinitely from the Board until ACOA or the two Board members could satisfactorily inform the Board that the matter had been resolved. We were informed by Corporation officials that no further action was taken in relation to this matter and that no monies were recovered from the two Board members.

- **Human Resources.** Corporation staff could not locate job competition files and personnel files. Given the absence of these files, we were unable to review the hiring practices of the Corporation or determine how people were selected for positions or whether salaries and benefits were in compliance with any employment contracts which may have been in place.

  Corporation staff indicated they are responsible for monitoring their own attendance and that there are no attendance or leave records maintained. Also, there is no documented approval for overtime worked.

Our review also indicated that two complaints against the Corporation had been filed with the Human Rights Commission.

- **Capital Assets.** The Corporation does not have a complete and accurate record of its capital assets.

2.26 Marine and Mountain Zone Corporation

In March 2003, the Public Accounts Committee made a resolution that *"... the Auditor General be asked to consider performing an audit of the Regional Economic Development Boards in the Province ..."*. Further to this resolution, I performed an audit of three zonal boards during the year. As requested by the Public Accounts Committee, the results of my work are included in my Annual Report to the House of Assembly on Reviews of Departments and Crown Agencies.

The Marine and Mountain Zone Corporation was incorporated in 1996. The Corporation covers the island's southwest coast, including 27 communities, with a combined population of 9,668 (2001).

The Corporation has received approximately $1 million in funding from the Federal (70% - $700,000) and Provincial (30% - $300,000) governments relating to administration expenses since its inception in 1996. The Corporation also received approximately $1.4 million for 2000, 2001 and 2002 to fund 11 initiatives in accordance with the Corporation's strategic economic plan. Of this $1.4 million, $1.2 million was provided by the Federal government, $75,000 was provided by the Provincial government and the remaining $89,000 was provided by the private sector.

Our review indicated that the Corporation has made unauthorized payments, is not complying with its performance contract with the Provincial government and with other authorities, and requires improvements in controls in several areas. Specifically:

- **Unauthorized Payments.** One item of particular concern resulting from our review was the fact that unauthorized payments totalling $13,339 were made directly to, or on behalf of, the Corporation's former Executive Assistant. These unauthorized payments were made over a period from 1996 to 1999, and while $8,213 was recovered from the employee, the balance of $5,126 has not been recovered.

- **Compliance with Authorities.** The Corporation has not repaid any of its unexpended operational funds totalling approximately $38,000 as it is required to do under the performance contract and has not provided information required to be submitted to the Management Committee on investment, number and type of businesses, and economic activity. As well, the Corporation has been spending monies on gifts which are not permitted under the performance contract.

  Also, the Board is not always complying with the requirements of the *Public Tender Act* and *Regulations* which it has adopted as policy.

- **Planning, Monitoring and Reporting.** No new long-term Strategic Economic Plan has been developed to replace the original plan which expired in 2002. For 2002-03, the Corporation only established strategic initiatives in its annual Work Plan. Without a long-term strategic plan to provide a focus, it is difficult for the Corporation to demonstrate how annual initiatives will contribute to any long-term objectives.

  Furthermore, there is no annual evaluation undertaken by Corporation officials of the various initiatives and projects which could be used by the Board to determine whether the initiatives or projects achieved the intended results and contributed to planned objectives.

- **Controls and Expenditures.** Travel claims do not always include all of the required information such as time of departure and return. We also identified one duplicate payment, and a claim that was paid without all of the required supporting documentation.

In addition, although Corporation policy requires that all cheques be signed by two individuals, in August 2002 the Corporation authorized the bank to process 20 cheques totalling $12,509 with only one signature because there was no second signing officer available. In this case, four letters were prepared for the release of the 20 cheques and each letter had the signature of the Chairperson affixed at the bottom. Our review indicated that the letters were not actually signed by the Chairperson; instead, the signature was placed on the letters from another Corporation document, photocopied and then faxed to the bank. These incidents represent a serious breach of control and may also be illegal.

- **Project Administration.** For one project, the Corporation paid fees which were higher than the contract and, although additions and changes to the contracted work were made, there was no documentation or prior approval of the additional costs. For another project we found that, although an entity was not complying with the agreement and was not providing the services required, the Corporation continued to pay for services which it had not received.

- **Human Resources.** Employee attendance records are not maintained and employee pay and benefits are communicated verbally and not in writing. As well, the required annual performance evaluations are not documented. Also, deductions are not always taken from payroll as required and the Canada Customs and Revenue Agency has provided the Corporation with notice of the matter.

- **Capital Assets.** Not all assets are identified and tagged and stickers used to tag some computer equipment have fallen off. As well, the database maintained by the Corporation does not include all assets and does not provide an asset's specific location. Also, forms used to track assets on loan are not always being completed.

2.27 Strategic Enterprise Development Fund

In November 1998, Government signed an agreement with Newfoundland Bonding and Composites Limited (subsequently changed to CHC Composites Inc.) regarding Government's contribution of $9.5 million towards the construction of a facility to provide manufacturing, repair and engineering services for aircraft components in Gander. Although the agreement had a number of provisions which allowed Government to inspect the Company's accounting records, and appoint a member to the Board of Directors, Government did neither.

In March 2003, Cabinet authorized a payment of $1 million to offset the Company's operating losses in exchange for preference shares in the Company. At the same time, the Department of Industry, Trade and Rural Development and the Department of Finance were directed to pursue collection activity on a $150,000 personal guarantee from an individual, who is also the Chairman and Chief Executive Officer of CHC Helicopter Corporation, relating to a personal guarantee provided for a now defunct company.

In April 2003, the Department of Industry, Trade and Rural Development wrote the individual requesting payment in full of the $150,000 personal guarantee no later than 15 May 2003. The letter indicated that *"Failure to do so will leave the Department with no other alternative but to examine all available options, including formal legal action."* However, although the $150,000 personal guarantee was not collected, this individual's company was provided with the $1 million in July 2003. As of 24 October 2003, the amount had still not been collected.

In addition to providing the $1 million, the November 1998 agreement was amended to extend the date for creation of 1,000 person years of employment from a six year period from July 1999 to July 2005, to the period ending in May 2008.

The Department of Industry, Trade and Rural Development contravened the *Financial Administration Act* when it provided the $1 million to the Company, in that the expenditure was recorded in 2002-03 as a payment "in trust" relating to an expenditure that was actually made in the 2003-04 fiscal year.

2.28 Royal Newfoundland Constabulary Firearms Review

The RNC is responsible for policing three regions of the Province - the Northeast Avalon, Corner Brook and Labrador West. The population of these regions is approximately 201,000 (2001 census). In providing these services, the RNC currently employs 313 police members and 78 civilian staff.

In 1998, members of the Royal Newfoundland Constabulary were permitted to wear firearms as part of their regular uniform. The Select Committee of the House of Assembly which recommended the new arming policy also recommended that a firearms audit be performed annually and submitted to the House of Assembly. As a result, this is our fifth annual firearms audit.

Although the RNC has adequate systems in place to record, monitor and secure its firearms, each year we identify instances of non-compliance with policy.

Our review identified a number of issues which should be addressed. For example:

- The firearms and ammunition inventory system is not accurate in that we found 5 instances where firearms were found in a location other than that recorded in the system.
- We found instances of non-compliance with the Firearms Policy during an inspection in October 2003. Instances included 3 members who had a loaded firearm in their locker, the amount of ammunition in the lockers of 11 members did not agree with the inventory system, and there were 4 members who did not have pepper spray stored in their lockers.
- The required monthly inspections of firearms storage lockers are not always performed.
- The required annual qualification for the use of firearms training had not been provided to 55 members. Furthermore, we determined that information in the training database is neither complete nor accurate. Of

particular concern is that, as the system is used to determine what use of force training has already been provided and what training is left to be provided, inaccuracies may result in a situation where a member may not receive all of the necessary use of force training.

- Although the Use of Force Review Board is required to review all instances of use of force, the Board has not met since October 2002. Furthermore, although all Board members used to receive copies of the use of force reports, this practice was discontinued after May 2002. Instead, only one member of the Board, the Firearms and Use of Force Instructor, receives the reports. There were 494 use of force incidents reported between 1 November 2002 and 31 August 2003. Of these 494 incidents, 40 related to firearms, 37 of which involved drawing and/or pointing a firearm at a person while the remaining 3 involved the discharge of a firearm regarding animals.

Select Committee of the House of Assembly

The arming policy of the RNC is to be reviewed at the end of five years by a Select Committee of the House of Assembly, i.e. March 2003. As at November 2003 the arming policy has not been reviewed.

2.29 Mining Act

To commence a mining or quarry project in the Province, a lease has to be obtained from the Department of Mines and Energy. At 31 March 2003, there were 38 lessees holding 66 active leases. After obtaining a lease, the lessee must comply with the requirements of the *Mining Act* in carrying out these operations.

The Department is not obtaining all of the information required under the *Mining Act* and *Mining Regulations* necessary to monitor mineral development in the Province.

Twenty-one lessees holding 31 active mining and quarry leases have applied for designation as a small scale operation which would exempt them from the requirements of the *Mining Act*. However, as at 31 March 2003, the Department had not completed its evaluation for any of the 21 lessees relating to these 31 active leases and therefore, it had not determined whether the lessees were required to provide the information outlined in the *Mining Act* and *Mining Regulations*. Although the remaining 17 lessees holding 35 active leases were required to comply with the *Mining Act* and *Mining Regulations*, all were in violation of the *Act* and *Regulations* in that the Department has indicated that not all of the required information had been obtained.

As a result, the Department has not determined the potential environmental impact for all 66 active leases held by 38 lessees in the Province and the potential liability to the Province of any future remediation and rehabilitation costs.

2.30 Debt Relief Program

In 1996-97, the Department of Municipal and Provincial Affairs introduced a Debt Relief Program to assist municipalities in debt refinancing or debt restructuring.

In 1997, the Department estimated there were 170 municipalities which should be reviewed to determine whether they required assistance under the Debt Relief Program. The Department targeted municipalities which spent 30% or more of their municipal operating grant and tax revenues on debt servicing costs. In May 1999, the Department estimated that it would complete its review of the 170 affected municipalities by 31 March 2000.

As of July 2003, 39 months after the Department's target date of 31 March 2000 to prepare a plan and provide the necessary assistance for the estimated 170 municipalities, only 114 of the 141 municipalities meeting the 30% debt servicing cost to revenue ratio identified in 1997 had been reviewed and assisted. Of the remaining 27 municipalities in this category, 22 had reviews at various stages of completion while 5 have not been reviewed. However, 13 municipalities were reviewed and assisted even though they did not meet the 30% debt servicing cost to revenue ratio identified in 1997. Of these 13 municipalities, 6 received financial assistance while 7 received non-financial assistance. Three of the 6 municipalities which received financial assistance still had a debt servicing cost to revenue ratio of less than 30% when they received assistance.

Program Guidelines indicate that the debt servicing cost to revenue ratios will be the basis for targeting municipalities for review. Although the Department determined the debt servicing cost to revenue ratios in 1997 to identify which municipalities would be reviewed for assistance under the Program, this information has not been updated since that time. Instead, the Department concentrates on Newfoundland and Labrador Municipal Financing Corporation (NLMFC) arrears and requests from municipalities seeking assistance. As a result, the Department has not identified which municipalities currently meet the debt servicing cost to revenue criterion necessary to prioritize reviews and determine eligibility for assistance.

Although reviews in progress in July 2003 have identified that the municipalities will require debt relief funding of approximately $9 million, there was no Program funding in the approved 2003-04 budget. Furthermore, a request for more funding for 2003-04 to continue the Debt Relief Program was deferred by Treasury Board.

Although Program Guidelines provide for an action plan that will permit the municipality to maintain stability in its financial affairs, the financial analysis and resulting agreements with municipalities did not address future capital works and funding requirements. As a result, there may be issues relating to future financial stability.

Monitoring and reporting is inadequate in that inspection targets were not established, annual inspections were not performed subsequent to assistance being provided, action plans addressing non-compliance with agreements were not being prepared, and quarterly reports outlining the status of instances of non-compliance, are not being provided to the Assistant Deputy Minister.

2.31 Disinfection Assistance Program

The Disinfection Assistance Program was introduced as a part of the Safe Drinking Water Initiative in 2001. The purpose of the program was to assist municipalities currently under a boil water advisory by providing them with 100 percent funding up to a maximum of $100,000 to install or upgrade water disinfection systems.

The Department of Municipal and Provincial Affairs is not complying with program guidelines. We found that:

- 5 municipalities were approved for funding totalling approximately $1.2 million even though they were not subject to a boil water advisory.
- 53 municipalities were approved for full funding in excess of the $100,000 limit, the total funding approved for these 53 municipalities totalled $8.7 million. The $100,000 limit was announced by Government in the House of Assembly during the Budget Speech. However, the Department, without authority, increased the $100,000 limit for purchases related to the installation costs of primary disinfection systems. Therefore, we applied the $100,000 limit as announced in the House of Assembly, and as referred to by the ministers of both Municipal and Provincial Affairs, and Environment, subsequent to the Department's revision.
- 6 municipalities were approved for funding totalling approximately $1.2 million for more than one project.
- 3 municipalities were approved for funding of approximately $94,000 for ineligible projects.
- Project files did not always contain the required signed agreements from the municipality.

2.32 Newfoundland and Labrador Housing Corporation Non-Profit Rental Social Housing Units

In 1997, the Newfoundland and Labrador Housing Corporation and the Canada Mortgage and Housing Corporation (CMHC) entered into an agreement which transferred all responsibility for operating and maintaining the rental units and home-owner programs to the Corporation. Under this Agreement, CMHC provides a predetermined annual level of funding on a decreasing basis up to and including the year 2038.

The Corporation's non-profit rental social housing units are in need of significant repairs. At 31 January 2003, 3,004 or 52% of the Corporation's 5,756 non-profit rental social housing units were in excess of 25 years old. In 2001, the Corporation prepared a preliminary cost estimate totalling $76.7 million relating to modernization and improvements of these units. Although the Corporation is undertaking a detailed review of each building to determine a more accurate cost estimate and when the funding will be required, at 31 January 2003, 66% of the buildings had not been reviewed. As a result of the reviews completed, the Corporation has identified that in excess of $29 million will need to be spent on these properties. The Corporation has also determined that, of this $29 million, $13 million is rated as critical and in need of immediate attention. While Corporation officials have discussed funding requirements with the Provincial Government, no source has yet been identified to fund the required repairs.

The Corporation does not have a preventative maintenance program in place to identify and correct deficiencies before they become larger problems. The Corporation does have a budget for repairs and maintenance which annually averages $8.2 million; however, the majority of maintenance work is directed to critical repairs on a day-to-day basis.

The Corporation does not have a complete long-term plan currently in place which addresses the nature, amount, timing and funding source of future capital expenditures. The Corporation has undertaken a number of initiatives in an attempt to identify future capital funding requirements for its non-profit rental social housing units; however, it has still not gathered sufficient information required for a complete long-term plan. Furthermore, although the Corporation does have a budget for modernization and improvements averaging $3.6 million per year over the past five years, based on the information that the Corporation has gathered relating to required capital costs, this funding is considered to be inadequate. The Corporation has indicated that the lack of funding has led to "*... the detriment of tenant living conditions ....*".

The Corporation has indicated that it is presently experiencing a high demand for one and two bedroom units while the need for four and five bedroom units has declined. This demand is the result of demographic changes such as an aging population, more single parents and fewer children per household. As a result, vacancies in four and five bedroom units are becoming increasingly difficult to fill without over-housing the prospective tenants. At 11 December 2002, 2,026 units or 35% of the 5,756 rental units were occupied by families smaller than the unit's capacity.

2.33 SpecialAssistance

Special assistance is budgeted under the ***Municipal*** Financial Assistance Program of the Department of ***Municipal*** and Provincial Affairs to provide assistance to municipalities and other entities. Given the Department's focus on municipalities, it would be reasonable to expect that the majority of this assistance would relate to municipalities and in 1999, 2000, and 2001, the majority of assistance did relate to municipalities. However, in 2002 only 46% of funding related to municipalities and in 2003, only 47% of the funding related to municipalities. Special assistance funding to municipalities has decreased significantly since 1999 when 79% of the funding was provided to municipalities. In my opinion, the funds provided for in this account were not used for the purpose authorized by the Legislature and, therefore, the Department contravened the *Financial Administration Act*.

The Department is not complying with the Program Guidelines. In particular, our review of 110 approved projects indicated the following:

- Recommendations of the Department's Executive Committee, comprised of the Deputy Minister and the Assistant Deputy Ministers, were not documented; therefore, we could not determine whether funding decisions for any of the projects reviewed for the year ended 31 March 2003 were assessed and approved by this Committee.

- Projects were not always approved by the Minister of Municipal and Provincial Affairs as required. For 13 of 73 projects which were not approved by the Minister, the projects were approved by the Premier's Office or the Minister of Finance. Ten of the 13 projects were for groups other than municipalities.

- Project files did not always contain the required analysis or recommendation from the appropriate regional office or, where applicable, the Fire Commissioner's Office.

- Project sponsors did not always submit the required documentation to support how the funding was spent.

2.34 Agency of Record

The Department of Tourism, Culture and Recreation contracts an agency of record to serve as the sole advertising agency for tourism promotion in the Province. The agency of record provides advertising, marketing and research services, and print and electronic production capabilities to the Minister to promote Newfoundland and Labrador as a tourism destination.

Our review of the process used by the Department in selecting and monitoring the agency of record disclosed the following:

- Although the Department has a formal agency of record review process outlining the factors to be used in a review and appraisal, the required review was never completed for the contract period 2 November 1998 to 31 October 2000. Even though the agency of record's performance was never formally reviewed, the contract was extended for the period 1 November 2000 to 31 October 2001.

  Furthermore, although there was no provision in the existing contract for any extension beyond 31 October 2001, the Department extended the contract for an additional seven months to 31 May 2002. As a result, the Department did not follow the spirit and intent of Government's public proposal call process.

- In March 2002, the Department conducted a public proposal call for an agency of record to cover the period June 2002 to May 2005 with two additional one year extensions.

  The terms of reference requesting bids indicated that the value of the contract was approximately $2.0 million annually. However, the Department had estimated that this contract would be worth approximately $4.0 million annually, and this was the basis for its 2002-03 budget. As a result of not referring to the increased actual anticipated value of this contract, it is not known whether additional companies may have responded.

Furthermore, although the Department established a five member review committee to review proposals and make a recommendation to the Minister, we identified a number of issues relating to the process used by the Committee. For example, information on billing rates was requested from bidders but not rated by the Committee, only four of the five Committee members completed the evaluation forms and only two of the four evaluation forms were fully completed for all established criteria. We also found that the review committee did not provide bidders with an opportunity to provide a presentation as was done for the previous contract.

- The Department does not always receive complete documentation to support payments to the agency of record as required under the contract. Details on third party costs and professional fees are not always provided with project estimates or as support for amounts included with billings received from the agency of record. The Department does not follow-up on missing documentation; instead, it pays the billings as submitted by the agency of record. As a result, the Department is not always adequately verifying billings before payment. Furthermore, although the contract provides the Department with the authority to request that records related to completed projects be made available, such a request has never been made.

- The Department contravened the *Public Tender Act* by not calling public tenders relating to selling advertising for the *2003 Travel Guide*. The agency of record received $32,278 for this service relating to the *2003 Travel Guide*.

The Department contravened the *Financial Administration Act* by not recording in-kind contributions totalling $16,375 for 2002-03 in the accounts of the Province as revenue and by not recording the $32,278 paid to the agency of record as an expenditure.

Furthermore, the acceptance of in-kind contributions is inappropriate and is not in accordance with the spirit and intent of the *Financial Administration Act*.

Officials of the Department informed us that the in-kind contributions totalling $16,375 consisted of airline credits of $10,000 and vacation package credits of $6,375. In-kind contributions are very difficult to control and are open to misuse. We found controls over the in-kind contributions to be severely lacking. After several inquiries to Departmental staff, we were informed that there was no documentation available for 2002-03 and any prior year as to who used the in-kind credits. The lack of documentation regarding these credits is of considerable concern.

2.35 Newfoundland and Labrador Legacy Nature Trust

On 22 March 1999, the Minister of Forest Resources and Agrifoods announced the establishment of the Newfoundland and Labrador Legacy Nature Trust, an incorporated non profit agency with a mandate to raise funds nationally and internationally to finance conservation projects in Newfoundland and Labrador.

On 14 September 1999, the Newfoundland and Labrador Legacy Nature Trust was incorporated by a founding committee of individuals from various sectors of the provincial environmental movement. On 7 March 2000, the Province entered into an agreement with the Trust and paid the Trust $1 million in seed funding.

The Department of Forest Resources and Agrifoods contravened the *Financial Administration Act* in providing the $1 million to the Trust through the use of a special warrant. The special warrant was issued in March 1999 and was indicated to be required on an urgent basis. However, the Trust did not exist at that time and in fact was not incorporated until September 1999, and the $1 million cheque was not paid to the Trust until almost a year later in March 2000.

One of the main objectives of the Trust is to raise funds for conservation in the Province and match conservation needs with sources of support. Although the Trust had established a fundraising target totalling $465,000 for 2001 and 2002, it only raised $5,500 in project funding from outside sources. To the end of 2002, the Trust has spent $301,435 on administration since being incorporated in September 1999.

In June 2003 the Deputy Minister of Tourism, Culture and Recreation wrote the Trust of the Minister's decision to reallocate approximately $500,000 of the Trust to another environmental organization. The matter is still not fully resolved.

Government has not adequately monitored Trust activities. Government appointed a Board member to represent the Province's interest in the Trust; however, this Board member has attended only six of the seventeen Trust Board meetings. As well, the Trust Agreement requires the submission of annual reports to the Minister. At the time of our review in September 2003, the last annual report submitted to the Minister was for the year ended 31 December 2000. I do note however that on 27 October 2003, the Trust submitted an annual report for 2002. No annual report was provided for 2001.

2.36 Bridge Inspections

The Department of Works, Services and Transportation has a bridge inspection policy; however, it is not documented and there is no documented approval of the policy. The bridge inspection policy is not risk based; instead, the policy is to inspect bridges six metres or longer every two years. A bridge may be inspected more frequently if the Bridge Office is made aware of safety issues; however, this is a reactive inspection and not proactive based on bridges with the highest degree of risk for safety. Contrary to the Department' s policy to inspect bridges six metres or longer every two years, 379 of the 715 bridges requiring such inspection have not been inspected within the past two years. Furthermore, 47 of these 379 bridges had an overall rating showing that they were in a poor or unsafe condition and 39 of the 379 bridges did not have an overall rating.

The Department does not have documented guidelines to assist the five regional engineers and six bridge engineers when completing bridge inspections to ensure that inspections are consistent among staff and across regions. Our review indicated there were inconsistencies in bridge condition ratings resulting from completed inspections.

The bridge inspection database maintained by the Department containing information input from the bridge inspection reports is incomplete and inaccurate. For example:

- At the time of our review in December 2002, the bridge inspection database did not include information on inspections performed after 2001.
- Fourteen bridges were not in the database and twelve bridges included should have been removed.
- Information on the length of 54 bridges is not included in the database. As a result, it is not possible, from our review of the database, to determine whether these bridges were six metres or longer and whether they should be inspected by engineers within the two year inspection requirement.
- 54 bridges in the database did not have an overall rating.
- Not all information relating to the condition of the bridges is entered into the database. For example, the results of load tests to determine the safety of a bridge is not entered.

The Department's process relating to bridge rehabilitation and replacement requires improvement. For example:

- The Department does not have a long-term plan to enable Government to consider future funding requirements in an orderly manner and to estimate how much funding will be required or when the funding would be required to rehabilitate or replace ageing bridges so that all bridges are brought up to a fair or good condition.
- The Department does not use a risk based model to identify bridges for rehabilitation or replacement. Instead, on an annual basis the Bridge Office uses listings prepared by the

five regions along with their own knowledge of bridge conditions and opinions with regard to safety and economics to set its annual work priorities.

- Officials at the Department have indicated that the funding for the bridge maintenance program is not sufficient. If the required maintenance is not performed on bridges, there will be extra costs for rehabilitation work and the work will be required sooner.

2.37 Ferry Operations

The Department of Works, Services and Transportation is responsible for the Province's ferry operations. As at 31 March 2003, the Province's ferry operations included 21 vessels, 20 of which are serving 15 routes around the Province and 1 vessel, Hull 100, which is undergoing a major refit at Clarenville. Of the 21 vessels, 9 are owned by private operators and the remaining 12 are owned by the Province.

Vessel Renewal and Replacement

Departmental officials have informed us that the normal life expectancy of a vessel is approximately 25 years. At 31 March 2003, 7 of the Province's 12 vessels were more than 25 years old, the average age of all 12 vessels was 26.4 years and ranged from 13 years to 40 years.

The Department has developed a four phase plan to replace 5 of the Province's older vessels; however, no cost or time frame has been established.

Hull 100

In May 1999, the Department purchased the Hull 100 (formerly the Ahelaid), for $930,000. At that time, the Department estimated that the purchase and refit of the Hull 100 would cost $2.9 million and that the vessel would be available for service in 2001. However, as at September 2003, the vessel is still not in service and actual costs to date for the purchase and refit are approximately $8.4 million. Furthermore, Departmental officials indicated that the final estimated cost of the Hull 100 will exceed $9 million and it will not be available for service until 2004.

As a result of an amendment to the *Public Tender Act* in December 2001, the Department paid $500,000 for refit work considered as unknown without having to issue a public tender for the additional work. Furthermore, as a result of the amendment, members of the House of Assembly are no longer required to be notified of this type of additional work not tendered.

Labrador Transportation Initiative Fund

In 1997, the Province received approximately $348 million from the Federal Government and assumed responsibility for the Labrador ferry service. The $348 million was intended to fund this service in perpetuity. However, $207 million of the Fund has been used to construct the Labrador Highway and $96.1 million has been used to fund operating costs of the ferry service. At 31 March 2003, the balance of the Fund was $107.4 million and officials of the Labrador Transportation Initiative Fund have indicated that, if Phase III of the Labrador Highway is funded through this Fund, it is expected to be fully depleted by the 2005-06 fiscal year.

Labrador Ferry Service

The Department contravened the *Public Tender Act* by awarding three contracts valued at $12.2 million without a public tender call. Each of these contracts were extensions of existing contracts. Furthermore, these exceptions were not reported to the House of Assembly as required under the *Act*.

The Department made payments totalling $98,520 to two contractors for costs that were not required under the contracts.

Chapter 3

Update on Prior Years' Report Items

This year we continued a process whereby our recommendations are monitored and the results reported within two years of the original report date. This chapter provides the results of this monitoring process relating to the recommendations contained in 2001 and prior

Reports of the Auditor General to the House of Assembly on Reviews of Departments and Crown Agencies.

Chapter 4

Special Reports

Marine and Mountain Zone Corporation

Section 15 of the *Auditor General Act* requires that we report to the Lieutenant-Governor in Council any improper retention or misappropriation of public money or other activity that comes to our attention during our audits. This section also requires that we provide a general description in the Auditor General's annual report of any incidents referred to the Lieutenant-Governor in Council.

On 9 June 2003 we reported to the Lieutenant-Governor in Council that our review of expenditures of the Marine and Mountain Zone Corporation identified unauthorized payments which were made directly to or on behalf of an employee of the Corporation. For additional information, see item 2.26.

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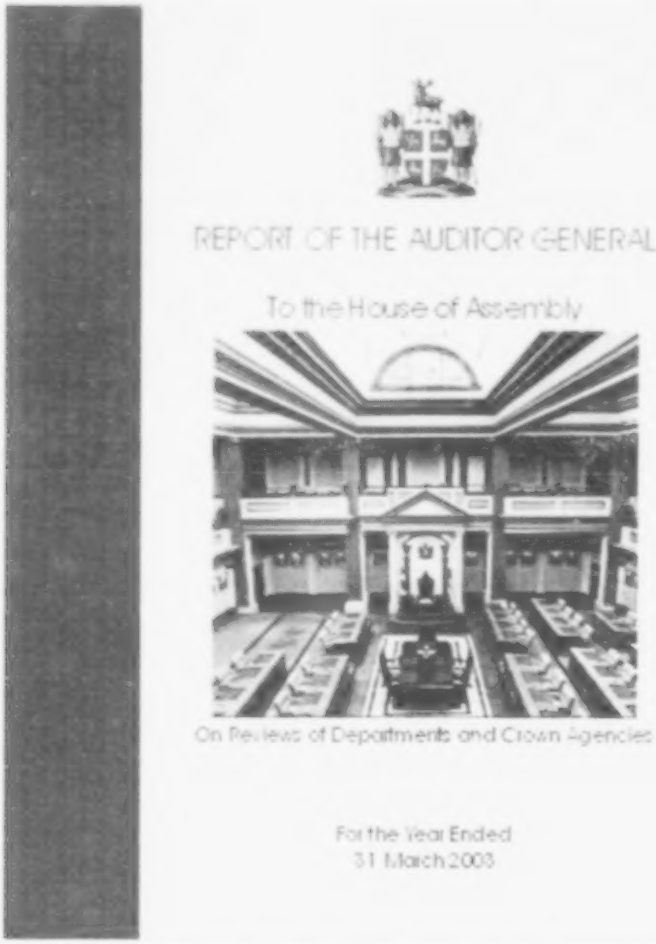

REPORT OF THE AUDITOR GENERAL

To the House of Assembly

On Reviews of Departments and Crown Agencies

For the Year Ended
31 March 2003

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Reflections of the Auditor General

The following comments are made further to my reviews of various Departments and Crown agencies for the year ended 31 March 2003. The report covers a variety of matters and is provided to the Members of the House of Assembly for their consideration. The purpose of the Office of the Auditor General as outlined in the Mission Statement is "*... to promote accountability and encourage positive change in the stewardship, management and use of public resources.*" Corrective action on the issues identified in this report will further that goal.

Accountability *(Part 2.2)*

In my opinion, Members of the House of Assembly are not being provided with the necessary information to assess Government's performance relative to goals and objectives outlined in a strategic plan. In my 2002 Report, I noted that only 1 of the 20 Government departments and 9 of the 83 Crown agencies had an annual report for 2001 tabled in the House of Assembly. Although it is encouraging that, during 2003, Government tabled annual reports for 2002 for all Departments and most Crown agencies, these annual reports did not provide the Members of the House of Assembly with information that they require. The annual reports, for the most part, provided financial information and information on activities - performance information in relation to approved plans was severely lacking. In addition, no strategic plans or annual operational plans were tabled in the House of Assembly.

I believe Government should have a legislative accountability framework which requires that all Government departments and Crown agencies table strategic and annual operational plans, and an annual performance report in the House of Assembly.

Legislation

In our democratic system of Government, legislation is debated and approved in the House of Assembly. There are two pieces of legislation in particular which set rules relating to the financial operations of Government - the *Public Tender Act* and the *Financial Administration Act*. As in other years, my Office continues to identify instances where Government and its agencies have contravened these *Acts*. Instances identified this year are as follows:

1. The Public Tender Act

The *Public Tender Act* outlines the rules that Government departments and most Crown agencies have to comply with in the acquisition of goods and services. The *Act* is intended to provide a level playing field for individuals and companies wanting to do business with Government. As in other years, my Office continues to identify instances where Government and its agencies contravened the *Public Tender Act*. For example:

(i) Avalon East School District - *(Part 2.8)*

The Board contravened the *Public Tender Act* in a number of instances. For 7 purchases totailing $383,235, no public tender was called. For 5 other purchases totalling $387,776, which were not tendered for a particular reason, the Minister of Works, Services and Transportation, and therefore the House of Assembly, was not informed of these exceptions. For 2 purchases totalling $164,676, the Board did not follow the spirit and intent of the *Public Tender Act* by issuing tender specifications which were so specific that competition was restricted. In 1 instance a tender valued at $29,750 was awarded to a non-compliant bidder in that the contractor did not meet the tender specifications which required that snow clearing equipment have a minimum horsepower and capacity. For 9 purchases totalling $44,490, the Board neither obtained three quotations nor provided documentation that a fair and reasonable price was established.

(ii) Avalon West School District - *(Part 2.9)*

The Board contravened the *Public Tender Act* in a number of instances. For 7 purchases totalling $259,953, no public tender was called. For 3 other purchases totalling $39,190, which were not tendered for a particular reason, the Minister of Works, Services and Transportation, and therefore the House of Assembly, was not informed of these exceptions. For 3 purchases totalling $87,525, the Board did not follow the spirit and intent of the *Public Tender Act* by issuing tender specifications in 2 instances which referred to a specific model and in 1 instance by issuing tender specifications which were so specific that competition was restricted. For 6 purchases totalling $25,685, the Board neither obtained three quotations nor provided documentation that a fair and reasonable price was established.

(iii) Labrador School District - *(Part 2.10)*

The Board contravened the *Public Tender Act* by not calling public tenders for 32 purchases totalling $835,647.

(iv) Newfoundland and Labrador Liquor Corporation - *(Part 2.14)*

The Corporation contravened the *Public Tender Act* in a number of instances. For 5 purchases totalling in excess of $1.9 million, no public tender was called. In addition, change orders for increases in original contracts were not approved in accordance with the requirements of the *Public Tender Act*. In 3 instances totalling $74,994, which required the approval of the permanent head i.e. the President or delegate, work commenced prior to the approval of the change orders. In 14 instances totalling $221,810, the change orders were not approved by the Board of Directors as required. In 1 instance a change order was prepared for $53,221 relating to an original contract valued at $69,720. Given the magnitude of the change order and the change in the specifications of what was purchased, in accordance with the requirements of the *Public Tender Act*, a new tender should have been called.

(v) Agency of Record - *(Part 2.34)*

The Department of Tourism, Culture and Recreation contravened the *Public Tender Act* by not calling a public tender for services costing $32,278 relating to the sale of advertising.

(vi) Ferry Operations - *(Part 2.37)*

The Department of Work, Services and Transportation contravened the *Public Tender Act* by awarding contracts valued at $12.2 million without a public tender call. Each of these contracts were extensions of existing contracts. Furthermore, these exceptions were not reported to the House of Assembly as required under the *Act*.

I am concerned that Government and its agencies continue to contravene the *Public Tender Act*. Government should ensure that all departments and Crown agencies comply with this legislation. Improvements in this area may be realized if Government drafted legislation for consideration by the House of Assembly which ensures that, to the extent possible, the Government Purchasing Agency is independent of any Government department.

2. The Financial Administration Act

The *Financial Administration Act* is the primary *Act* governing the financial operations of the Province. Concepts provided for in the *Financial Administration Act* and central to our democratic system are that Government cannot spend beyond the limits approved by the Legislature, money can only be spent for purposes authorized by the Legislature and Government cannot raise money without the approval of the Legislature. There were a number of examples during the year where Government contravened the *Financial Administration Act*. For example:

(i) Special Warrants - *(Part 2.3)*

In March 2003 Government issued a $4 million special warrant for which, in my opinion, there was no urgent requirement. As a result, this special warrant was issued in contravention of the *Financial Administration Act*.

The Department of Mines and Energy obtained funding from a special warrant and, in contravention of the *Financial Administration Act*, transferred $45,600 from an account identified in the special warrant to an account within the Department not authorized in the warrant.

(ii) Borrowing Without Authority - *(Part 2.4)*

Although 5 entities created under the *Corporations Act* had no authority in legislation to borrow money, they had a total of $111.6 million in outstanding debt due to entities outside of the government reporting entity. In addition, 2 of the 4 health and community services boards had a total of $556,265 in long-term debt even though the *Health and Community*

Services Act, under which these 4 boards were created, does not provide authority to borrow. As a result, these 7 entities contravened the *Financial Administration Act* by borrowing a total of $112 million without legislative authority.

(iii) Strategic Enterprise Development Fund - ***(Part 2.27)***

The Department of Industry, Trade and Rural Development contravened the *Financial Administration Act* when it provided $1 million to CHC Composites Inc. in that the expenditure was recorded in 2002-03 as a payment "in trust" relating to an expenditure that was actually made in the 2003-04 fiscal year.

(iv) Special Assistance - ***(Part 2.33)***

The Department of Municipal and Provincial Affairs is authorized by the Legislature under the Municipal Financial Assistance Program to provide grants to municipalities and other entities. The percentage of total funding allocated to municipalities has decreased from 79% in 1999 to 47% in 2003. In 2003, less than one-half of the $5.9 million provided for special assistance was paid to municipalities. As a result, in my opinion, the funds were not used for the purposes authorized by the Legislature and, therefore, the Department contravened the *Financial Administration Act*.

(v) Agency of Record - ***(Part 2.34)***

The Department of Tourism, Culture and Recreation contravened the *Financial Administration Act* by not recording in-kind contributions totalling $16,375 as revenue and by not recording commissions retained by the agency of record totalling $32,278 as an expenditure.

I am concerned that Government continues to contravene the *Financial Administration Act*. Government should comply with this legislation.

Inspections

During the year we reviewed inspection programs related to Government's inspections of food premises, child care facilities and bridges. Inspections are required to be performed to gather sufficient information necessary to make a determination as to whether there is compliance with legislation and Government policy, and whether public health and safety is being compromised. Significant weaknesses were found in the inspection activities reviewed during the year which has led me to conclude that Government is not doing a good job with its inspection activities. For example:

Reflections of the Auditor General

1. Food Premises Inspections and Licensing - *(Part 2.16)*

The *Food and Drug Act* provides for the inspection of food premises to ensure public safety in relation to the food supply. Approximately 40% of food premises that we reviewed were not being inspected at the required frequency, an increase from the 35% reported in 1998. There were 317 food premises in the Government Service Centre's database which were operating without a valid licence at the time of our review. Furthermore, the database of food premises is neither current nor accurate. There were instances of non-compliance with policy and procedures such as: follow up inspections were not always completed to determine whether previously identified health hazards were corrected; and licences were sometimes issued even though there was no evidence on file to indicate that identified health hazards were corrected prior to the licence being issued.

2. Child Care Services - *(Part 2.18)*

Although licences are issued to child care facilities, there were many instances where there was no evidence on file to indicate whether all licensing requirements outlined in the *Child Care Services Act* and *Regulations* were met.

We selected 22 of the 89 child care centres in the St. John's region and found that none were being evaluated on an annual basis as required. In 3 of these 22 centres we found health and safety issues identified for which no violation order was issued. Examples of issues identified include a child left unattended, fire exit blocked and emergency lighting not working. We selected 5 of the 14 child care centres in the Western region and found that a violation order for health and safety issues identified by an inspector for 1 centre was not issued on a timely basis. Examples of issues identified include children left unattended, inadequate food servings and lack of cleanliness.

In 12 of the 89 centres in the St. John's region, there were 13 violation orders issued; however, there is not always evidence that the violations were followed up.

We selected 5 of the 18 family child care homes in the St. John's region and 4 of the 15 homes in the Western region and found that monthly visits were not always conducted.

The Department of Government Services and Lands maintains a database of facilities; however, this database is neither complete nor accurate. Furthermore, the required annual fire, life and safety, and environmental health inspections of these facilities are not always being conducted by the Department.

3. Bridge Inspections - *(Part 2.36)*

Contrary to the policy of the Department of Works, Services and Transportation to inspect bridges six metres or longer every two years, 379 of the 715 bridges requiring such inspection have not been inspected within the past two years. Furthermore, 47 of these 379 bridges had an overall rating showing that they were in a poor or unsafe condition and 39 of the 379 bridges did not have an overall rating.

Reflections of the Auditor General

I am concerned that Government is not doing a good job with its inspection activities. Government should ensure that sufficient inspections are conducted to make a determination as to whether there is compliance with legislation and Government policy, and whether public health and safety is being compromised.

Acknowledgments

I would like to acknowledge the cooperation and assistance my Office has received from officials of the various Government departments and Crown agencies during the completion of our audits. I also wish to thank my staff for their hard work, professionalism and dedication.

JOHN L. NOSEWORTHY, C.A.
Auditor General

2.1 Audit of the House of Assembly

Introduction

Since the Province first had an Auditor General in 1898, they have always audited all revenues and expenditures of the Consolidated Revenue Fund, including those of the House of Assembly. This was confirmed with the enactment of the *Auditor General Act* in 1991, wherein section 10 states that: "*The auditor general is the auditor of the financial statements and accounts of the province and shall make those examinations and inquiries that the auditor general considers necessary to enable him or her to report as required by this Act.*"

However, in May 2000, section 9 of the *Internal Economy Commission Act* was repealed and a new section 9 was substituted which provided that the accounts of the House of Assembly were to be audited annually by an auditor appointed by the Commission of Internal Economy. I was informed that this change in the *Act* was intended to prevent my Office from completing the audit of the expenditures of the House of Assembly. As a result, my Office has not had access to the accounts and records of the House of Assembly since the *Internal Economy Commission Act* was amended. Therefore, the expenditures of the House of Assembly have not been subject to audit for the past four fiscal years. Figure 1 outlines the net expenditures of the House of Assembly since 2000 and indicates that a total of $39.9 million of net expenditures have not been subject to audit by the Office of the Auditor General.

Figure 1

Net Expenditures of the House of Assembly
Years Ended 31 March
($ Millions)

Year	Net Expenditures of the House of Assembly	Less: Net Expenditures of the Office of the Auditor General	Net Expenditures not Audited by the
2000	11.2	1.8	9.4
2001	11.3	2.1	9.2
2002	12.4	2.4	10.0
2003	13.3	2.0	11.3
Totals	48.2	8.3	39.9

Source: Public Accounts of the Province - Volume III

2.1 Audit of the House of Assembly

On 24 June 2003, a public accounting firm was appointed to audit the House of Assembly for the years ended 31 March 2002, 2003 and 2004. However, the audit was not completed before the Public Accounts of the Province were tabled in the House of Assembly.

Issue of Accountability

Accountability to the House of Assembly and ultimately the taxpayers of the Province is central to our system of democratic government. True accountability fosters public trust and confidence in the integrity of the political system. The fundamental role of the Auditor General is to bring an independent legislative audit and reporting process to bear upon the review of all accounts of the Province and provides an increased level of accountability of Government. Therefore, by not allowing the Auditor General to audit the revenues and expenditures of the House of Assembly accountability is diminished.

There are extremely important reasons how the work of an Auditor General differs from the work of an appointed public accounting firm. First is the issue of independence - the Auditor General is able to conduct audits that may not please those being examined, reports findings publicly, and always acts first and foremost in the public interest. A firm, however, is hired to perform specified work and cannot report publicly on its findings. Another issue relates to the scope of the work - the Auditor General sets the scope of the work without limitation, interference or influence. A firm, however, accepts work with a scope that is normally predetermined. Furthermore, the Auditor General has a whole-of-government mandate which provides information on broad government matters which places the Auditor General in a position to better identify those accountability and performance issues that have the greatest impact on Government. A firm, however, would not have this whole-of-government knowledge.

Conclusion

I urge the Members of the House of Assembly to give the Auditor General unrestricted access, in accordance with the *Auditor General Act*, to audit the accounts of the House of Assembly.

2.2 Framework of Accountability

Introduction

A fundamental principle of accountability is that an entity cannot be accountable to itself. True accountability requires that entities be held accountable to those who provide the resources for their operations. On behalf of the taxpayers of the Province, the House of Assembly approves the allocation of approximately $4 billion annually to Government departments and Crown agencies (including Memorial University of Newfoundland).

To be truly accountable, these entities would be required to table strategic and annual operational plans and provide an annual performance report to the House of Assembly. This report would provide information on the results of their activities in comparison with these plans, using measurable criteria and providing explanations for areas where performance varies from that expected. Strategic plans outline the long-term goals and objectives of an entity while operational plans are prepared annually and include the allocation of all resources, including financial, to further the goals and objectives contained in the strategic plan.

In previous Reports to the House of Assembly, my Office has expressed concern over the lack of performance information being provided to the House of Assembly by Government departments and Crown agencies. As a result, my Office has recommended the implementation of a legislated accountability framework for all Government departments and Crown agencies which would include the requirement to provide an annual performance report.

Conclusions

There is no legislative requirement for all Government departments and Crown agencies to prepare and table strategic and operational plans in the House of Assembly. In addition, there is no legislative requirement for entities to table performance reports on their activities in comparison to these plans.

During 2002-03 all Government departments as well as 77 of the 85 Crown agencies had some form of annual report for 2001-02 tabled in the House of Assembly. While this represents a significant increase in the number of reports tabled over previous years, the reports that were tabled, in general, did not provide information on the performance of each entity in relation to its approved plans using established measurable criteria. As a result, the entities have not provided the information required to truly demonstrate their accountability to the House of Assembly.

A true accountability process would include more than the tabling of a performance report - it would also require the tabling of strategic and operational plans so that Members of the House of Assembly would have the information necessary to compare an entity's performance in relation to its goals and objectives.

Findings and Recommendation

Background

Prior to 1989 the various acts which created the departments of Government (with the exception of the Department of Justice) required that departments prepare annual reports on their operations and that such reports be tabled in the House of Assembly. In 1989 these departmental acts were repealed and new legislation was passed. The new acts did not contain a provision which required the preparation and tabling of an annual report by each department. As a result, with the exception of the Public Service Commission, there is no requirement for Government departments to table an annual report in the House of Assembly.

Furthermore, only 18 of the 85 Crown agencies have a legislative requirement to table an annual report in the House of Assembly.

Information Tabled in the House of Assembly

In recent years, Government issued guidelines for Government departments and Crown agencies to follow in preparing annual reports. These guidelines provide direction relating to production standards, report contents, critical dates, and required that all annual reports be tabled in the House of Assembly.

The 2002 Speech from the Throne committed all Government departments and Crown agencies to publish reports in 2003. The first annual reports were to be prepared for the fiscal year 2001-02 and tabled in the House of Assembly in March 2003.

Our review of which Government departments and Crown agencies had annual reports tabled in the House of Assembly during 2003 indicated a significant improvement in the number of reports tabled over prior years. Our review indicated the following:

- Each of the 19 Government departments had an annual report for the fiscal year 2002 tabled in the House of Assembly during 2003.
- Of Government's 85 Crown agencies, 77 had some form of annual report for the 2002 fiscal year tabled in the House of Assembly during 2003. Figure 1 provides information on the 85 Crown agencies.

2.2 Framework of Accountability

Figure 1

Annual Reports Tabled
in the House of Assembly
Fiscal year ended 2002
($000's)

Sector	Number of Entities	Government Operating Grants Paid in 2001-02	2002 Annual Reports Tabled	Number of Entities	Government Operating Grants Paid in 2000-01	2001 Annual Reports Tabled
Health Care Boards	12	890,237	10	12	776,871	0
School Boards and Related Entities	11	452,356	11	11	451,826	0
Memorial University of Newfoundland	1	149,068	1	1	134,852	0
Community Health Boards	4	184,913	4	4	166,610	0
College of the North Atlantic	1	60,020	1	1	58,245	0
Other Crown agencies receiving Government Operating Grants	24	34,855	22	18	52,288	3
	53	1,771,449	49	47	1,640,692	3
Other Crown agencies not receiving Government Operating Grants	32	0	28	36	0	6
	85	1,771,449	77	83	1,640,692	9

Although we are pleased that Government departments and most Crown agencies are preparing annual reports and having them tabled in the House of Assembly, we found that these reports do not provide information on performance in relation to strategic and operational plans using established measurable criteria.

There is currently no legislative requirement for Government departments or Crown agencies to prepare strategic and operating plans for tabling in the House of Assembly. As a result, other than financial information provided during the annual budget process, no such plans have been tabled in the House of Assembly. Furthermore, there is currently no legislative requirement for entities to table a report on performance in relation to these approved plans using established measurable criteria.

2.2 Framework of Accountability

The Need for Accountability Legislation

Our review of legislation of other jurisdictions disclosed that Canada and the other provinces have some form of legislation which requires that departments and Crown agencies table some form of annual report on their operations.

In addition, in a number of jurisdictions Treasury Board (Management Board) has provided formal directives relating to the preparation and tabling of annual operational plans and performance reports. Figure 2 outlines the results of our review.

Figure 2

Accountability and Reporting in Canada

Jurisdiction	Legislation	Requirement	Are Performance Reports Being Completed
British Columbia	*Budget Transparency and Accountability Act*	The *Act* requires annual performance reports, strategic plans and performance plans for government, each ministry and each government organization.	Yes by Government, its departments and most of its entities
Alberta	*The Government Accountability Act*	The *Act* requires business plans and an annual accountability report for government, each ministry and each accountable organization.	Yes by Government, its departments and most of its entities
Saskatchewan	*The Government Organization Act* Legislation creating departments and Crown agencies	The *Act* requires departments to report to the Legislative Assembly on the work of the department. Departmental legislation and the *Financial Administration Act* require annual reporting. Legislation creating Crown agencies requires them to table their annual reports in the Legislative Assembly.	Yes by most departments and most agencies.
Manitoba	*The Financial Administration Act*	The *Act* requires that departments and agencies report on their operations. The *Crown Corporations Public Review and Accountability Act* requires crown entities to submit annual reports on their operations. The act establishing each crown entity contains a requirement that an annual report be prepared.	Departments and agencies are preparing annual reports on their operations.

2.2 Framework of Accountability

Figure 2

Jurisdiction	Legislation	Requirement	Are Performance Reports Being Completed
Ontario	The legislation which creates the departments and agencies (as an example the *Agriculture and Food Ministry Act* and *Liquor Control Board Act*).	The legislation requires annual reports on operations. A Management Board Directive requires every agency to prepare annual reports and annual business plans.	Plans which include goals, objectives and outcomes are prepared and tabled. Each ministry reports individually on its performance.
Québec	*The Public Administration Act*	The *Act* requires that each department or body must adopt a strategic plan which must be tabled in the National Assembly along with an annual report on the results obtained measured against the objectives set.	Plans which include goals, objectives and outcomes are prepared and tabled. Each ministry reports individually on its performance
New Brunswick	The legislation which creates the departments and agencies (e.g. the *Health Act*, the *Highway Act* and the *Legal Aid Act*).	The legislation requires annual reports on operations. In addition, a Management Board Policy Directive requires the preparation of annual reports by all departments and agencies of the Public Service.	Plans which include goals, objectives and outcomes are prepared and tabled. Each ministry reports individually on its performance
Nova Scotia	*The Financial Measures Act* *The Provincial Finance Act* Other legislation (e.g. the *Health Authorities Act*)	The *Act* requires that government prepare business plans and file reports showing outcomes against the business plan. The *Act* requires all Crown agencies to submit annual business plans to the Legislature. This legislation requires health authorities to prepare business plans and report on results achieved with respect to performance objectives established.	Government wide business or strategic plans are prepared that contain goals, objectives and outcomes across government as a whole. Plans which include goals, objectives and outcomes are prepared and tabled. Each ministry reports individually on its performance
Prince Edward Island	*The Financial Administration Act*	The *Act* states that all departments and entities must submit an annual report which includes a statement of goals achieved during the reporting period.	Plans which include goals, objectives and outcomes are prepared. Each ministry reports individually on its performance.

2.2 Framework of Accountability

Figure 2

Jurisdiction	Legislation	Requirement	Are Performance Reports Being Completed
Canada	*The Financial Administration Act*	The *Act* requires Crown Corporations to table reports. The *Act* also requires tabling of reports on Special Examinations every five years.	Plans which include goals, objectives and outcomes are prepared and tabled. Each ministry reports individually on its performance
Newfoundland and Labrador	There is no general or umbrella legislation. The acts which created the Public Service Commission and 18 Crown agencies.	None These acts require the tabling of an annual report.	No. This year, for the first time, all departments and most Crown agencies prepared annual reports. However, for the most part, these reports did not contain performance information.

As Figure 2 shows, Newfoundland and Labrador is the only jurisdiction in Canada which does not have some form of a legislative framework of accountability which would require that Government departments and Crown agencies prepare and table a report on operations. Furthermore, many of these other jurisdictions require that some form of planning documents be tabled.

While we are pleased to see a significant increase in the number of annual reports tabled in the House of Assembly during 2003, we feel that, to improve accountability of Government departments and Crown agencies, a legislative framework should be put in place.

A legislative framework would include the requirement for all Government departments and Crown agencies to table long-term strategic and annual operational plans as well as an annual performance report. This report would provide information on the results of an entity's activities in comparison with these plans, using measurable criteria and providing explanations for areas where performance varies from that expected.

2.2 Framework of Accountability

Recommendation

Government should draft legislation for consideration by the House of Assembly which requires that all departments and Crown agencies table strategic and operational plans and performance reports.

Cabinet Secretariat's Response

Government departments currently prepare strategic plans on a three-year cycle. A three-year cycle enables departments to prioritize their goals and objectives while maintaining the flexibility to respond to continually changing fiscal priorities, and economic and social conditions in the province. Three-year strategic plans strike a balance between long-term strategic plans and annual operational plans and, although they are not currently tabled in the House of Assembly, these plans are released to the public via the Government's website.

Departments are building their capacity to produce annual performance reports. We will continue to encourage departments to develop informative annual reports that include measurable indicators.

The government has committed that it will bring in a Transparency and Accountability Act that will require performance planning and reporting for all government departments and Crown agencies, with annual performance plans to be presented to the House of Assembly. As part of this commitment, each department and government-funded agency will be required to table in the legislature, at the end of each fiscal year, annual reports that compare actual performance results for the fiscal year with expected results identified in performance plans.

Treasury Board Secretariat's Response

The government departments and public bodies have made progress towards developing the knowledge and the business processes necessary to implement accountability requirements as noted in your report. Departments and public bodies continue to build capacity within their fiscal and human resource capabilities to meet the demands of performance-based planning and reporting.

The work thus far sets the stage for continuing progress and for future legislation. It is agreed that accountability legislation will provide a legislated framework for the conduct of fiscal and program management and decision making. It would also ensure the public and the legislature are well informed and would strengthen accountability.

Accountability legislation will be pursued at the appropriate time.

2.2 Framework of Accountability

2.3 Special Warrants

Introduction

The common parliamentary means of providing spending authority to government is through the annual passing of supply acts. This involves having the Members of the House of Assembly vote on the government's funding requests before the spending authority is provided. Approval by a majority of the Members of the House of Assembly is needed to pass an Act.

Through the use of a "special warrant", Government can, without the prior debate and approval of the Members of the House of Assembly, spend public money. Section 28 of the *Financial Administration Act* outlines two instances where a special warrant can be approved and additional funding can be provided to Government:

- Where the sum appropriated by the Legislature for a continuing service is insufficient to meet requirements and there are no countervailing savings available, and **the necessity is urgent.** (Section 28(2)); and
- Where the Legislature is not in session or when the House of Assembly has been adjourned for more than 30 days, and an expenditure not foreseen and not provided for by the Legislature for a new service is urgently and immediately required for the public good and **the necessity is urgent** and if not made, grave damage to the interests of the Crown or the public will result. (Section 28(3)).

The *Financial Administration Act* also requires that each Minute of Council authorizing a special warrant quote the special reasons for doing so, and a certified copy of the Minute of Council and the special warrant have to be tabled in the House of Assembly.

During 2002-03, Government issued 12 special warrants totalling $24.2 million.

Conclusion

One special warrant for $4.0 million approved for the Department of Health and Community Services was issued on 24 March 2003 in contravention of the *Financial Administration Act* in that, in our opinion, there was no urgent requirement for the funds.

The Department of Mines and Energy obtained funding from a special warrant and, in contravention of the *Financial Administration Act*, transferred $45,600 from an account identified in the special warrant to an account within the Department not authorized in the warrant.

2.3 Special Warrants

Findings

Figure 1 provides information on special warrants issued over the past 11 years.

Figure 1

Special Warrants Issued
Years Ended 31 March
($ Millions)

Year	Total Number of Special Warrants	Total Amount of Special Warrants	Special Warrants Issued in March of each Year
1993	7	42.4	2.5
1994	2	36.5	0.0
1995	13	57.9	30.4
1996	10	32.5	4.1
1997	7	75.7	75.7
1998	13	88.6	34.6
1999	14	136.0	123.8
2000	7	70.8	70.8
2001	6	61.5	33.0
2002	9	51.0	48.2
2003	12	24.2	10.9
Totals	**100**	**677.1**	**434.0**

Source: Public Accounts of the Province

In previous reports our Office has expressed concern that many of these special warrants did not meet the requirements of the *Financial Administration Act*. We have also indicated that Government often uses special warrants, especially during the last month of each fiscal year, to reduce the cash surplus of Central Government and produce whatever financial results the Government desires.

Details on the $24.2 million in special warrants issued in 2002-03, and the amounts not in compliance with the *Financial Administration Act* are outlined in Figure 2.

2.3 Special Warrants

Figure 2

Special Warrants by Department
Year Ended 31 March 2003
($ 000's)

Date of Special Warrant	Department	Details	Amount	Not in compliance with the FAA
12 August 02	Environment	Environmental Assessment - Voiseys Bay	225.0	
12 August 02	Municipal and Provincial Affairs	Relocation of Great Harbour Deep	6,500.0	
12 August 02	Forest Resources and Agrifoods	Emergency Fire Suppression	3,146.0	
12 August 02	Executive Council	Royal Commission on Renewing and Strengthening Our Place in Canada	1,864.0	
5 September 02	Mines and Energy	Voiseys Bay Announcements	725.0	45.6
5 September 02	Justice	Child Support Guidelines	110.6	
20 September 02	Tourism, Culture and Recreation	Construction Grant Innu Building Hope Campaign	750.0	
		Total Special Warrants issued to 30 September 2002	**13,320.6**	**45.6**
7 March 03	Justice	Criminal Law - Salaries 80 Legal Aid Grants 290 Provincial Court - Salaries 150 RNC - Salaries 1,350 RNC - Transportation and Communications 100 RNC - Supplies 100 RCMP - Professional Services 330 Adult Corrections - Salaries 650 Youth Secure Custody - Salaries 170 Total 3,220	3,220.0	
13 March 03	Human Resources and Employment	Social Assistance Allowances	1,550.0	
13 March 03	Justice	Child Support Guidelines	125.0	
24 March 03	Mines and Energy	Hope Brook Mine reclamation	2,000.0	
24 March 03	Health and Community Services	Additional Funds for Community Health Boards	4,000.0	4,000.0
		Total Special Warrants issued in March 2003	**10,895.0**	**4,000.0**
		Total Special Warrants issued for the 2002-03 Fiscal Year	**24,215.6**	**4,045.6**

2.3 Special Warrants

As indicated in Figure 2, our review of the 12 special warrants totalling $24.2 million which were issued during 2002-03 disclosed that 2 special warrants totalling $4.046 million did not fully comply with the *Financial Administration Act*. In 1 instance, the special warrant was issued even though there was no urgent requirement, while in the other instance, funds were transferred without Treasury Board approval from an account for which the special warrant was authorized. Details on these special warrants are provided as follows.

One special warrant for $4 million was issued in contravention of the *Financial Administration Act* in that there was no urgent requirement for the funds. In this case, the Department of Health and Community Services paid a total of $4.0 million to the 4 community health care boards and the Grenfell Regional Health Services Board. The payments were made on 31 March 2003, the last business day of the year; therefore, the Department could have waited until the next day i.e. 1 April 2003, when funding would have been available from its 2003-04 budget.

On 5 September 2002 the Department of Mines and Energy received a special warrant in the amount of $725,000 to provide additional funds for costs related to Government's announcements on the signing of a Statement of Principles for Voisey's Bay. However, subsequent to the receipt of the special warrant funds, $45,600 was transferred without Treasury Board approval from the account identified in the special warrant to accounts within the Department not authorized in the warrant. As a result, the Department contravened the *Financial Administration Act*.

Treasury Board Secretariat's Response

The Financial Administration Act *does not define or qualify what constitutes urgency. In the noted case of the Department of Health and Community Services, appropriate statements as to urgency had been prepared by the Minister, and were tabled in the House of Assembly, as required by the* Act. *The $4 million was required to address the deficits for the Home Support Program for the fiscal year 2002-03. The funding was provided from the 2002-03 Budget as Government thought it was prudent to match the expenditures when incurred. Government made a decision during this year to fund these deficits and the money was spent for that purpose.*

Department of Health and Community Services Response

The Department deemed the issuance of a $4.0 million special warrant urgent to address regional health board deficits. These deficits occurred in fiscal 2002-03 mainly due to over expenditures in the home support program and had already been incurred by the boards. As noted in prior years Annual Reports on "Monitoring Health and Community Services Boards", your Office has expressed concern about the deteriorating financial position of the Community Health Boards. The Department shares this concern therefore it was deemed prudent and urgent to reimburse these boards to ensure no further deterioration of their financial position.

Department of Mines and Energy Response

My financial staff had misread Section D of Treasury Board Directive 97-07 and had not understood that transfers could not be made out of any Main Object once supplementary funding for it had been approved by means of Special Warrant.

Now that they are aware of this, they will certainly ensure that there is no recurrence.

2.3 Special Warrants

2.4 Creation of Crown Agencies and Borrowing without Authority

Introduction

Crown agencies are distinct legal entities in which Government holds ownership and control on behalf of the Province. As a result Government generally appoints the members of the board of directors, provides direction in the area of policy and, where necessary, provides operating funds to permit the agency to carry out its mandate. Ownership and support of Crown agencies represent a significant expenditure of public money and use of other resources on behalf of the Province. This public money is provided to Government through the approval of the Province's annual budget by the Legislature.

Crown agencies are generally created by the Legislature under some form of legislation to be an instrument for carrying out public policy on behalf of the Crown. This legislation generally provides authority and direction relating to the mandate, purpose, and responsibility of each entity.

Scope and Objectives

We reviewed the status of the various Crown agencies to determine under what authority they were created.

We reviewed the *Financial Administration Act* and other legislation to determine under what authority these Crown agencies borrow money.

We also reviewed the financial statements and other supporting information of the Crown agencies which were created under the *Corporations Act* to determine whether they had any debt due outside of the government reporting entity at the most recent financial statement date.

Conclusions

Creation of Crown Agencies

Of the 80 Crown agencies which existed at 31 March 2003, 14 were created under the *Corporations Act* rather than by legislation enacted by the Legislature. If there is to be appropriate legislative control over the creation and operation of Crown agencies and if they are to be held accountable to the House of Assembly, then all Crown agencies should be created under the authority of the Legislature. An act of the Legislature would outline the mandate of a Crown agency and also state its purpose, authority and responsibility. In this way all Members of the House of Assembly would be aware of newly created Crown agencies.

Borrowing without Legislative Authority

The most recent financial statements of the 14 Crown agencies created under the *Corporations Act* disclosed that 5 of these entities had a total of $111.6 million in outstanding debt due to entities outside of the government reporting entity. If the enabling legislation of an agency does not provide specific authority for it to borrow funds or if it has been created under the *Corporations Act*, then the Crown agency does not have the legislative authority to borrow. The *Financial Administration Act* prohibits the raising of money by way of loan without legislative authority. As a result, these entities contravened the *Financial Administration Act* by borrowing money without legislative authority.

The most recent financial statements of the 4 health and community services boards which were created under the *Health and Community Services Act* disclosed that 2 of these entities had a total of $556,265 in outstanding long-term debt to entities outside of the government reporting entity. The *Health and Community Services Act*, under which these entities were created, does not provide specific authority to borrow. The *Financial Administration Act* prohibits the raising of money by way of loan without legislative authority. As a result, these entities contravened the *Financial Administration Act* by borrowing money without legislative authority.

Findings and Recommendations

Creation of Crown Agencies

Crown agencies are generally created by the Legislature under some form of legislation to be an instrument for carrying out public policy on behalf of the Crown. In many cases these entities are created under their own legislation as in the case of Newfoundland and Labrador Hydro-Electric Corporation (Newfoundland and Labrador Hydro), Workplace Health, Safety and Compensation Commission, Newfoundland Liquor Corporation, and Newfoundland and Labrador Housing Corporation. In other cases they are created under general legislation such as the *Hospitals Act* under which all hospitals in the Province are created. The legislation generally provides authority and direction relating to the mandate, purpose and responsibility of each entity.

The Legislature approves approximately $4 billion to fund the various programs proposed by Government through its annual budget. Much of this funding is then distributed to the various Crown agencies to carry out their programs. Therefore, it is important that Government and its entities report back to the House of Assembly on the use of any public money or other public resources which they have received. Because these entities are authorized to spend public money or use other public resources, it is important that they be created specifically by an act of the Legislature or under a blanket act such as the *Hospitals Act* or the *Schools Act*. In this way the Legislature can authorize the creation of Crown agencies, approve the specific governing provisions of their legislation and hold them accountable for their use of public money and other public resources.

We reviewed the status of the various Crown agencies to determine under what authority these entities were created. The authorities supporting the creation of the 80 Crown agencies which existed as at 31 March 2003 are presented in Figure 1.

Figure 1

Authority for Creation of Crown Agencies
31 March 2003

How the Crown Agency was Created	Number of Entities
Own separate legislation	34
Hospitals Act	11
Schools Act	11
Subsidiaries of Newfoundland and Labrador Hydro	4
Health and Community Services Act	4
Financial Administration Act	1
Crown Agencies Created under Legislation	**65**
Corporations Act	14
Not created under legislation	1
Total Crown Agencies	**80**

Source: Legislation and Entities' Financial Statements

2.4 Creation of Crown Agencies and Borrowing without Authority

Figure 1 shows that 14 Crown agencies have been created under the *Corporations Act* and one agency was not created under any legislation. These Crown agencies were created under the *Corporations Act* or under no legislation rather than by legislation enacted by the Legislature. If there is to be appropriate legislative control over the creation and operation of Crown agencies and if they are to be held accountable to the House of Assembly, then all Crown agencies should be created under the authority of the Legislature. An act of the Legislature would outline the mandate of a Crown agency and also state its purpose, authority and responsibility. In this way all Members of the House of Assembly would be aware of newly created Crown agencies.

Borrowing without Legislative Authority

In general, most Crown agencies are created under some form of legislation which establishes the mandate of a Crown agency and also states its purpose, authority and responsibility. Where a Crown agency has been created by legislation, the legislation usually provides direction as to procedures which the Crown agency must follow if it intends to borrow funds. If the enabling legislation does not provide specific authority for the Crown agency to borrow funds or if it has been created under the *Corporations Act*, then the Crown agency does not have the legislative authority to borrow. Section 37 of the *Financial Administration Act* states that; "*No money shall be raised by way of loan by the province except under this or some other Act of the Legislature*." and Section 52 of the *Act* states that "*.... nothing in this Act authorizes an increase in the public debt without the express authority of the Legislature*". In other words, government departments and Crown agencies cannot borrow money without the express authority of the Legislature.

Our review of the legislation under which the Crown agencies were created disclosed the following:

- of the 34 agencies created under their own separate legislation, 18 were granted authority to borrow and 16 agencies were not granted legislative authority to borrow. Of the 18 agencies which were granted legislative authority to borrow, 9 must receive prior approval of the Lieutenant-Governor in Council, 6 must receive prior approval of the minister and in 3 cases (one of which is no longer active) the agency may borrow on its own;

- in the case of the 14 agencies created under the *Corporations Act*, there is no provision or authority in legislation for them to borrow funds;

- for the 11 agencies created under the *Hospitals Act*, the *Act* provides that they may borrow subject to the approval of the minister;

- for the 11 agencies created under the *Schools Act*, the *Act* provides that they may borrow subject to the prior written approval of the minister;

- the 4 subsidiaries of Newfoundland and Labrador Hydro, which were created under the *Corporations Act*, are covered by the *Hydro Corporation Act* which permits Newfoundland and Labrador Hydro to borrow subject to the prior approval of the Lieutenant-Governor in Council;

- the 4 agencies created under the *Health and Community Services Act* have no legislative authority to borrow;

- the Newfoundland Government Sinking Fund, created under the *Financial Administration Act* has not been granted legislative authority to borrow; and

- the Newfoundland and Labrador Centre for Health Information has not been created under any legislation and therefore has no legislative authority to borrow.

As indicated above, the 14 agencies which were created under the *Corporations Act* do not have the legislative authority to borrow. However, our review of the most recent financial statements and other supporting information relating to the 14 Crown agencies disclosed that 5 of these entities had borrowed a total of $111.6 million from entities outside of the government reporting entity. Figure 2 provides a listing of Crown agencies created under the *Corporations Act* along with details relating to the $111.6 million in outstanding debt.

2.4 Creation of Crown Agencies and Borrowing without Authority

Figure 2

Crown Agencies Created under the *Corporations Act*

Crown Agency	Year Created	Most Recent Year End	2003 Total Borrowing Outside Government $	2002 Total Borrowing Outside Government $
1. Bull Arm Site Corporation	1995	31 March 2003	0	0
2. Hotel Buildings Limited	1966	31 March 2003	0	0
3. Marble Mountain Development Corporation	1988	30 April 2003	2,198,217	1,862,907
4. Marble Mountain Management Corporation	1996	30 April 2003	0	0
5. Municipal Assessment Agency Inc.	1997	31 March 2003	0	0
6. Newfoundland and Labrador Education Investment Corporation	1998	31 March 2003	61,803,523	27,356,349
7. Newfoundland and Labrador Film Development Corporation	1997	31 March 2003	0	0
8. Newfoundland and Labrador Heritage Corporation	1999	31 March 2003	30,573,511	9,690,323
9. Newfoundland and Labrador Student Investment and Opportunity Corporation	2001	31 March 2003	0	0
10. Newfoundland Government Fund Limited	1995	31 December 2002	0	0
11. Newfoundland Hardwoods Limited	1950	31 March 2003	0	0
12. Newfoundland Ocean Enterprises Limited	1988	31 March 2003	5,250,000	4,850,000
13. Newvest Realty Limited	2001	31 December 2002	11,784,613	0
14. Special Celebrations Corporation of Newfoundland and Labrador, Inc.	1998	31 March 2003	0	0
Total			**111,609,864**	**43,759,579**

Source: Entities' Financial Statements

Furthermore, as indicated above, the 4 health and community services boards which were created under the *Health and Community Services Act* do not have the legislative authority to borrow. However, our review of the most recent financial statements and other supporting information relating to the 4 boards disclosed that 2 of these entities had borrowed a total of $556,265 from entities outside of the government reporting entity. The $556,265 was comprised of $459,301 in long-term debt for the St. John's Regional Health and Community Services Board and $96,964 in long-term debt for the Eastern Health and Community Services Board. As a result, these 2 entities borrowed without authority.

Recommendations

All Crown agencies should be created under the authority of the Legislature through separate specific legislation. This legislation should authorize the creation of these entities, and approve their mandate, purpose, authority and responsibility.

Crown agencies should not borrow without the express legislative authority of the Legislature.

Treasury Board Secretariat's and Department of Finance Response

By convention, it has been a long standing practice in this Province to occasionally incorporate an entity under the Corporations Act (ie. 1950, 1991, 1987, etc.). Factors such as: whether or not the House is sitting; the timing; the urgency for the entity to be created; or the program implemented may have been considerations in such decisions.

We note that there is nothing to prohibit Government from incorporating an entity under the Corporations Act. *The Lieutenant-Governor in Council exercises due diligence in establishing the purpose and restrictions applicable in such instances. All Government organizations are subject to Government's accountability policies and Guidelines.*

You have commented that entities created under the Corporations Act *may not have specific legislative authority to borrow. However, in recent years the Articles of Incorporation and/or Bylaws for these corporations have specific provision for borrowing, but only with the approval of the Lieutenant-Governor in Council.*

In addition, the financial institutions generally require a guarantee of the Province prior to lending. Four of the five entities you have identified (except Newvest Realty Limited - see response to Pensions Management Report) have guarantees in place by the Province pursuant to The Loan and Guarantee Act, 1957. *A Schedule is prepared pursuant to that* Act *and* *tabled in the House in order to ratify these guarantees, and this Schedule clearly indicates the limits of guarantees provided by the Province. Entities created under the* Corporations Act *are created in their own right and their borrowings do not obligate the Crown unless provincial guarantees are provided under legislation.*

The Province and each of its Crown corporations, however incorporated, are distinct legal entities. Section 37 of the Financial Administration Act *refers only to the raising of loans by one of these entities, i.e. "by the Province". It is our view that if Sections 37 and 52 of the* Act *are read in the context of the entire* Act, *then the term "public debt" can only refer to the borrowings of the Province. Accordingly, we do not believe that any of these five entities are in contravention of the* Financial Administration Act, *because that* Act *does not apply to their borrowings.*

Given the issues you have raised, we recognize that further review of these matters may be appropriate and we plan on giving them additional consideration to determine if clarification of legislation may be necessary. In particular, we plan on reviewing them in conjunction with assessing possible accountability legislation options.

Regarding borrowings of the Health and Community Services Boards, we note that the Department of Health and Community Services has responded directly to you on this matter in their response to the report "Monitoring Health and Community Services Boards".

2.5 Monitoring Expenditures of the Consolidated Revenue Fund

Introduction

As part of our audit of the financial statements of the Consolidated Revenue Fund (CRF), we perform tests and reviews of the expenditures made by the various departments. Figure 1 outlines expenditures, by category, recorded in the Consolidated Revenue Fund financial statements for the years ended 31 March.

Figure 1

Consolidated Revenue Fund Expenditures
By Category
Years Ended 31 March
($ Millions)

Consolidated Revenue Fund Expenditures				
Category	**2003**	**2002**	**2001**	**2000**
Salaries and Benefits	378	361	337	317
Pension Costs	96	3	(13)	(5)
Transportation and Communications (See Figures 13, 14)	38	37	36	37
Supplies	58	54	57	50
Professional Services (See Figures 9, 10)	204	198	194	55
Purchased Services (See Figures 7, 8)	218	250	240	239
Property, Furnishings and Equipment (See Figures 5, 6)	15	49	44	39
Allowances and Assistance (See Figures 11, 12)	352	343	334	316
Grants and Subsidies (See Figures 2, 3, 4)	2,128	1,985	1,829	1,863
Debt Expenses	905	874	878	808
Information Technology	26	26	26	25
Bad Debts	8	11	28	30
Total	**4,426**	**4,191**	**3,990**	**3,774**

Source: Consolidated Revenue Fund financial statements

2.5 Monitoring Expenditures of the Consolidated Revenue Fund

During the past year, we obtained expenditure information from Government's accounting system relating to all expenditures of the Consolidated Revenue Fund. We performed a general review and analysis of amounts paid relating to: grants and subsidies; property, furnishings and equipment; purchased services; professional services; allowances and assistance; and transportation and communications. Details of the expenditures in each of these categories are provided as follows:

Grants and Subsidies

Government has established programs which provide grants or subsidies to various Crown agencies, private corporations and individuals. These payments are made to hospital boards for the operation of the Province's hospitals, to school boards for the operation of the Province's schools and teachers' salaries, to the College of the North Atlantic and Memorial University of Newfoundland, and to certain Crown agencies for operational funding. Other grants and subsidies are paid to private corporations and individuals in accordance with Government support programs.

During the year we continued our process of monitoring and reviewing payments made for grants and subsidies. Figure 2 shows, by department, payments made for grants and subsidies for the year ended 31 March 2003 totalling $2.128 billion with comparative figures for the year ended 31 March 2002.

As the Figure indicates for the year ended 31 March 2003, grants and subsidies amounted to approximately $2.128 billion or approximately 48.1% of the total expenditures of the Consolidated Revenue Fund. For the year ended 31 March 2002, payments for grants and subsidies were approximately $1 985 billion and represented approximately 47.3% of the total expenditures of the Consolidated Revenue Fund.

2.5 Monitoring Expenditures of the Consolidated Revenue Fund

Figure 2

Grants and Subsidies Expenditures
By Department
Years Ended 31 March
($000's)

Grants and Subsidies Expenditures by Department		
Department	**2003**	**2002**
Health and Community Services	1,255,435	1,164,758
Education	527,546	510,255
Youth Services and Post Secondary Education	207,586	197,067
Municipal and Provincial Affairs	48,478	30,308
Industry, Trade and Rural Development	20,043	22,151
Human Resources and Employment	12,728	13,227
Finance	12,400	604
Newfoundland and Labrador Housing Corporation	10,002	11,550
Justice	7,383	6,797
Tourism, Culture and Recreation	5,247	5,564
Mines and Energy	5,067	5,178
Labrador and Aboriginal Affairs	4,474	4,213
Forest Resources and Agrifoods	4,267	2,453
Works, Services and Transportation	4,142	5,310
Executive Council	1,536	1,453
Fisheries and Aquaculture	1,363	3,224
Environment	115	111
Legislature	97	204
Labour	93	33
Government Services and Lands	48	110
Total	**2,128,050**	**1,984,570**

Source: Government's Financial Information System

2.5 Monitoring Expenditures of the Consolidated Revenue Fund

We also summarized the payments of grants and subsidies by the type of entity for the year ended 31 March 2003 with comparative figures for the year ended 31 March 2002. The results of this summary are outlined in Figure 3.

Figure 3

Grants and Subsidies Expenditures
By Type of Entity
Years Ended 31 March
($000's)

Types of Entities Receiving Grants and Subsidies		
Type of Entity	**2003**	**2002**
Hospitals and Health Services Boards	995,713	919,301
School Boards - Teachers' Payroll	382,326	362,620
Health and Community Services Boards and Related Entities	234,764	220,924
Memorial University of Newfoundland	159,748	149,068
School Boards and Related Entities - Other Payments	128,469	124,518
College of the North Atlantic	60,791	60,020
Municipalities	47,974	30,308
Economic Renewal, Labour Market and Industry Support	36,305	43,226
Educational Agencies and Post Secondary Education Support	15,488	15,951
Newfoundland and Labrador Municipal Financing Corporation	12,504	-
Newfoundland and Labrador Housing Corporation	10,002	11,550
Transportation Grants	9,478	10,356
Newfoundland and Labrador Legal Aid Commission	7,052	6,482
Provincial Information and Library Resources Board	6,976	7,730
Agricultural Development	4,139	2,346
Labrador Agreement and Native Peoples Support	3,212	2,613

Figure 3 (cont'd)

Types of Entities Receiving Grants and Subsidies

Type of Entity	2003	2002
Canada-Newfoundland Offshore Petroleum Board	3,027	2,700
Recreation and Sport	2,233	1,704
Culture and Heritage	1,185	1,398
Newfoundland and Labrador Film Development Corporation	550	500
C. A. Pippy Park Commission	403	-
Newfoundland and Labrador Education Investment Corporation	181	5,350
Other Miscellaneous Grants	5,530	5,905
Total	**2,128,050**	**1,984,570**

Source: Government's Financial Information System

Figure 4 provides the names of all entities which received grants and subsidies funding in excess of $10 million for the year ended 31 March 2003 with comparative figures for the year ended 31 March 2002.

Figure 4

Grants and Subsidies Expenditures
Payments in Excess of $10 million
Years Ended 31 March
($000's)

Entities Which Received in Excess of $10 Million		
Entity	**2003**	**2002**
Health Care Corporation of St. John's	398,623	374,822
Memorial University of Newfoundland	159,748	149,068
Western Health Care Corporation	135,148	125,869
Central West Health Care Corporation	77,711	72,961
Community Health - St. John's	73,960	71,186
Central East Health Care Corporation	62,680	57,922
Peninsulas Health Care Corporation	60,835	58,371
College of the North Atlantic	60,791	60,020
St. John's Nursing Home Board	59,435	54,387
Avalon Health Care Corporation	53,143	49,445
Eastern Regional Community Health Board	45,452	40,341
Labrador Health Services Board	43,861	43,825
Central Newfoundland Regional Community Health Board	42,193	39,267
Grenfell Regional Health Care Corporation	40,351	38,527
Western Newfoundland Regional Community Health Board	37,534	34,119
District #10 School Board	28,010	27,304
Canadian Blood Services	20,336	19,467
Newfoundland Cancer Treatment and Research Foundation	15,726	14,108
Newfoundland and Labrador Municipal Financing Corporation	12,504	-
District #9 School Board	12,222	12,882

Figure 4 (cont'd)

Entities Which Received in Excess of $10 Million		
Entity	**2003**	**2002**
District #6 School Board	11,917	10,778
District #5 School Board	11,300	10,539
Newfoundland and Labrador Housing Corporation	10,002	11,550
Grants $10 million and less paid to over 5,200 entities or individuals in 2003 (2002 - over 4,800 entities or individuals)	654,568	607,812
Total	**2,128,050**	**1,984,570**

Source: Government's Financial Information System

Property, Furnishings and Equipment

The Property, Furnishings, and Equipment category generally includes capital items such as equipment purchased for use by Government departments. This category also includes grants made by the Department of Health and Community Services to the various hospital and health and community services boards for the purchase of equipment. During the year ended 31 March 2003, the Province paid $2.1 million (2002 - $31.8 million) to the hospital and health and community services boards for equipment which is included in the property, furnishings and equipment category. As indicated in Figure 1, payments for property, furnishings and equipment totalled $15 million for the year ended 31 March 2003. Figure 5 shows, by department, payments made for property, furnishings and equipment for the year ended 31 March 2003 with comparative figures for the year ended 31 March 2002.

2.5 Monitoring Expenditures of the Consolidated Revenue Fund

Figure 5

Property, Furnishings and Equipment Expenditures
By Department
Years Ended 31 March
($000's)

Property, Furnishings and Equipment Expenditures by Department		
Department	**2003**	**2002**
Works, Services and Transportation	4,370	7,069
Municipal and Provincial Affairs	3,202	4,611
Health and Community Services	2,111	31,868
Forest Resources and Agrifoods	1,644	1,424
Education	709	353
Justice	689	1,496
Youth Services and Post Secondary Education	662	537
Tourism, Culture and Recreation	403	731
Fisheries and Aquaculture	242	263
Environment	241	83
Government Services and Lands	224	220
Legislature	98	12
Labour	93	57
Executive Council	83	92
Industry, Trade and Rural Development	73	61
Human Resources and Employment	54	153
Mines and Energy	30	91
Labrador and Aboriginal Affairs	15	87
Finance	11	32
Public Service Commission	10	5
Total	**14,964**	**49,245**

Source: Government's Financial Information System

2.5 Monitoring Expenditures of the Consolidated Revenue Fund

We also summarized the payments for property, furnishings and equipment to show all entities which received payments in excess of $1 million for the year ended 31 March 2003 with comparative figures for the year ended 31 March 2002. These entities are listed in Figure 6.

Figure 6

Property, Furnishings and Equipment Expenditures
Payments in Excess of $1 million
Years Ended 31 March
($000's)

Entities Which Received in Excess of $1 Million		
Entity	**2003**	**2002**
Western Star Trucks Nfld. Ltd.	1,825	-
Country Trailer Sales Ltd.	1,103	849
Peninsulas Health Care Corporation	487	2,694
Avalon Ford Sales Limited	343	1,026
Avalon Health Care Institutions Board	254	1,987
Central East Health Care Corporation	178	1,078
Western Health Care Corporation	20	2,260
Health Care Corporation of St. John's	-	15,430
Central West Health Care Corporation	-	2,412
Toromont Cat	-	1,262
The Salvation Army	-	1,176
Payments $1 million and less to over 600 entities in 2003 (2002 - over 700 entities)	10,754	19,071
Total	**14,964**	**49,245**

Source: Government's Financial Information System

2.5 Monitoring Expenditures of the Consolidated Revenue Fund

Purchased Services

Purchased services includes such services as heat and light, general maintenance, printing, vehicle rentals and repairs, advertising, and insurance. As indicated in Figure 1, payments for purchased services totalled $218 million for the year ended 31 March 2003. Figure 7 shows, by department, payments made for purchased services for the year ended 31 March 2003 with comparative figures for the year ended 31 March 2002.

Figure 7

Purchased Services Expenditures
By Department
Years Ended 31 March
($000's)

Purchased Services Expenditures by Department		
Department	**2003**	**2002**
Works, Services and Transportation	122,899	197,176
Health and Community Services	24,115	973
Mines and Energy	13,161	2,210
Education	10,190	2,203
Forest Resources and Agrifoods	10,095	9,162
Tourism, Culture and Recreation	7,480	6,614
Justice	6,103	5,871
Industry, Trade and Rural Development	5,910	5,688
Youth Services and Post Secondary Education	5,029	5,155
Municipal and Provincial Affairs	3,523	4,858
Government Services and Lands	2,248	2,996
Executive Council	1,773	1,468
Human Resources and Employment	1,520	1,554
Fisheries and Aquaculture	1,379	1,570
Legislature	1,125	780
Labour	514	171
Environment	444	686
Finance	222	240
Labrador and Aboriginal Affairs	192	128
Public Service Commission	154	192
Consolidated Fund Services	88	22
Total	**218,164**	**249,717**

Source: Government's Financial Information System

2.5 Monitoring Expenditures of the Consolidated Revenue Fund

We also summarized the payments for purchased services to show all entities which received payments in excess of $1 million for the year ended 31 March 2003 with comparative figures for the year ended 31 March 2002. These entities are listed in Figure 8.

Figure 8

Purchased Services Expenditures
Payments in Excess of $1 million
Years Ended 31 March
($000's)

Entities Which Received in Excess of $1 Million		
Entity	**2003**	**2002**
Allied Constructors Inc.	14,103	11,012
Johnson Construction Ltd.	13,525	15,485
Atcon Construction Inc.	9,399	-
Municipal Construction Ltd.	6,222	5,274
Newfoundland Power	6,106	5,752
Labrador Marine Inc.	4,857	4,695
Humber Valley Paving	4,431	8,985
Bristol Communications Ltd.	4,161	3,243
Mariner Engineering	4,102	5,138
Olympic Construction Ltd.	4,012	14,117
Penney Paving	3,693	3,908
Western Health Care Corporation	3,681	200
10663 Newfoundland Limited	3,508	3,054
Concord Paving Limited	3,289	2,268
Terra Nova Industries Ltd.	3,239	4,904
Trident Construction Limited	3,239	2,782
Pennecon Ltd.	3,158	5,535
College of the North Atlantic	2,929	2,779
RDN Construction	2,892	9,828
St. John's Dockyard Limited	2,870	775
Federal - Provincial Contractors - Holdback Account	2,852	4,945
J-1 Contracting Limited	2,763	2,893
Glenn Corp Ltd.	2,377	2,677

2.5 Monitoring Expenditures of the Consolidated Revenue Fund

Figure 8 (cont'd)

Entities Which Received in Excess of $1 Million

Entity	2003	2002
Clarenville Drydock Inc.	2,026	487
Star Line Inc.	1,966	1,597
Canship Limited	1,922	1,865
Marsh Canada Ltd.	1,804	1,298
H.J. O'Connell Construction Ltd.	1,715	2,436
Labrador Construction Ltd.	1,646	3,901
Irving Oil	1,578	750
Denison Environmental Services	1,445	756
Newfoundland and Labrador Hydro	1,434	1,137
Provincial Paving	1,271	4,535
B & M Paving (1983) Ltd.	1,255	458
Atlantic Catering Ltd.	1,243	789
Nortech Construction Company	1,208	-
Lyn-Gor Developments Inc.	1,164	-
Newfound Construction Ltd.	1,125	1,538
Sun Construction Co. Ltd.	886	1,956
Abitibi Consolidated Inc.	831	1,134
Corner Brook Pulp and Paper Ltd.	600	1,326
Crown Paving	395	1,591
Central East Health Care Board	389	1,606
Marine Contractors Inc.	330	1,804
Northland Contracting Inc.	313	2,397
Chimo Construction Ltd.	52	1,255
Dome Productions Inc.	22	1,102
McNamara Construction Company	18	6,228
Bonne Bay Contractors	-	3,798
EBC Inc.	-	2,488
Metal World Inc.	-	1,873
Payments $1 million and less to over 5,500 entities or individuals (2002 - over 5,600 entities or individuals)	80,118	79,363
Total	**218,164**	**249,717**

Source: Government's Financial Information System

2.5 Monitoring Expenditures of the Consolidated Revenue Fund

Professional Services

Professional services generally include the fees and expenses of those engaged in a specialty profession such as accountants, doctors, lawyers, and engineers who provide a service, a report or advice to Government. As indicated in Figure 1, payments for professional services totalled $204 million for the year ended 31 March 2003. Figure 9 shows, by department, payments made for professional services for the year ended 31 March 2003 with comparative figures for the year ended 31 March 2002.

Figure 9

Professional Services Expenditures
By Department
Years Ended 31 March
($000's)

Professional Services Expenditures by Department		
Department	**2003**	**2002**
Health and Community Services	143,029	138,849
Justice	44,020	43,281
Consolidated Fund Services	4,922	1,704
Works, Services and Transportation	1,921	4,685
Industry, Trade and Rural Development	1,592	1,858
Executive Council	1,519	671
Municipal and Provincial Affairs	1,099	649
Forest Resources and Agrifoods	956	789
Environment	953	876
Education	931	1,500
Mines and Energy	687	1,036
Labour	476	680
Tourism, Culture and Recreation	443	304
Youth Services and Post Secondary Education	415	361
Government Services and Lands	284	251
Finance	164	177
Legislature	156	73
Fisheries and Aquaculture	122	246
Public Service Commission	113	156
Labrador and Aboriginal Affairs	98	128
Human Resources and Employment	94	112
Total	**203,994**	**198,386**

Source: Government's Financial Information System

2.5 Monitoring Expenditures of the Consolidated Revenue Fund

We also summarized the payments of professional services to show all entities or individuals who received payments in excess of $500,000 for the year ended 31 March 2003 with comparative figures for the year ended 31 March 2002. These entities or individuals are listed in Figure 10.

Figure 10

Professional Services Expenditures
Payments in Excess of $500,000
Years Ended 31 March
($000)'s

Payments in Excess of $500,000		
Entity	**2003**	**2002**
Receiver General For Canada (e.g. RCMP Contract)	41,139	39,329
Medical Practice Associates	11,366	11,565
Radiology Group - St. Clare's	2,824	2,885
HSC Associated Radiologists	2,512	3,145
Nephrology Partnership	2,003	1,870
Peninsula Health Care	1,369	411
Pediatric Diagnostic Imaging	1,133	976
Newfoundland Design Associates Ltd.	1,059	906
Jacques Whitford	1,008	139
Burin Peninsula Health Care Center	923	811
xwave	882	818
Carbonear General Hospital	879	776
Dr. Kevin N. Melvin	865	784
Amec E & C Services Ltd.	833	1,183
Western Health Care Corporation	769	566
Bae-Newplan Group Ltd	544	620
Labrador Health Services Board	538	303
Dr. Eng T. Tjon	526	504
Dr. Kam W. Mong	516	553
Dr. Peter D. Hollett	512	488
Dr. Michael Furey	502	495
Grenfell Regional Health Services	502	294
Payments $500,000 and less to over 1,700 entities or individuals (2002 - over 1,800 entities or individuals)	130,790	128,965
Total	**203,994**	**198,386**

Source: Government's Financial Information System

2.5 Monitoring Expenditures of the Consolidated Revenue Fund

Allowances and Assistance

Allowances and assistance expenditures include costs relating to such items as: allowances for Members of the House of Assembly, social assistance allowances paid to individuals, out of court settlements, and allowances paid on behalf of individuals to organizations. As indicated in Figure 1, payments for allowances and assistance totalled $352 million for the year ended 31 March 2003. Figure 11 shows, by department, payments made for allowances and assistance for the year ended 31 March 2003 with comparative figures for the year ended 31 March 2002.

Figure 11

Allowances and Assistance Expenditures
By Department
Years Ended 31 March
($000's)

Allowances and Assistance Expenditures by Department		
Department	**2003**	**2002**
Human Resources and Employment	217,258	217,312
Health and Community Services	101,323	91,233
Youth Services and Post Secondary Education	18,881	19,331
Legislature	5,327	5,135
Education	4,361	4,626
Justice	3,690	5,127
Municipal and Provincial Affairs	334	198
Finance	189	-
Labour	62	64
Works, Services and Transportation	53	174
Public Service Commission	41	108
Executive Council	20	20
Forest Resources and Agrifoods	19	20
Total	**351,558**	**343,348**

Source: Government's Financial Information System

We also summarized the payments of allowances and assistance to show all entities which received payments in excess of $500,000 for the year ended 31 March 2003 with comparative figures for the year ended 31 March 2002. These entities are listed in Figure 12.

Figure 12

Allowances and Assistance Expenditures
Payments in Excess of $500,000
Years Ended 31 March
($000's)

Payments in Excess of $500,000		
Entity	**2003**	**2002**
xwave	88,465	79,298
Health Care Corporation of St. John's	2,284	2,471
Minister of Finance (Ontario)	1,885	1,400
Medical Services Insurance	1,154	954
Williams, Roebothan, McKay, Marshall (In Trust)	993	967
Memorial University of Newfoundland	704	976
Provincial Treasurer of Alberta	663	536
Bay St. George Community Employment Corporation	603	428
The Salvation Army - Wiseman Centre	584	630
Miscellaneous amounts $500,000 and less paid to over 2,500 entities or individuals (2002-over 2,800 entities or individuals)	254,223	255,688
Total	**351,558**	**343,348**

Source: Government's Financial Information System

Transportation and Communications

Transportation and communications expenditures include costs relating to such items as: postage, freight, ambulance and air services, telecommunication services and travel for ministers, government employees and others. As indicated in Figure 1, payments for transportation and communications totalled $38 million for the year ended 31 March 2003. Figure 13 shows, by department, payments made for transportation and communications for the year ended 31 March 2003 with comparative figures for the year ended 31 March 2002.

2.5 Monitoring Expenditures of the Consolidated Revenue Fund

Figure 13

Transportation and Communications
Expenditures By Department
Years Ended 31 March
($000's)

Transportation and Communications Expenditures by Department		
Department	**2003**	**2002**
Forest Resources and Agrifoods	7,081	5,376
Works, Services and Transportation	6,834	8,141
Justice	3,348	3,464
Tourism, Culture and Recreation	3,008	3,087
Education	2,282	1,778
Government Services and Lands	2,161	1,887
Human Resources and Employment	1,745	1,906
Executive Council	1,663	1,510
Industry, Trade and Rural Development	1,339	2,032
Mines and Energy	1,301	1,378
Health and Community Services	1,263	1,358
Municipal and Provincial Affairs	946	752
Fisheries and Aquaculture	908	951
Youth Services and Post Secondary Education	782	734
Labrador and Aboriginal Affairs	618	591
Environment	602	569
Legislature	583	575
Labour	527	619
Finance	493	633
Public Service Commission	84	99
Consolidated Fund Services	6	-
Total	**37,574**	**37,440**

Source: Government's Financial Information System

We also summarized the payments for transportation and communications to show all entities which received payments in excess of $100,000 for the year ended 31 March 2003 with comparative figures for the year ended 31 March 2002. These entities are listed in Figure 14.

2.5 Monitoring Expenditures of the Consolidated Revenue Fund

Figure 14

Transportation and Communications Expenditures
Payments in Excess of $100,000
Years Ended 31 March
($000's)

Entities Which Received in Excess of $100,000		
Entity	**2003**	**2002**
GT Group Telecom Services Corporation	3,131	2,702
Universal Helicopters Nfld. Ltd	3,022	2,568
Postage by Phone	2,270	2,067
Supermarine Aircraft	1,582	1,080
Newfoundland Telephone Company (Contract)	1,399	1,098
Canadian Helicopters Limited	1,219	934
Aliant Mobility Limited	1,135	1,144
Aliant Communications Inc.	1,034	1,109
Canada Post Corporation	885	871
10663 Nfld Limited	832	939
Harvey's Travel	628	731
Newfoundland Helicopters Ltd.	612	401
Legrow's Travel	518	284
Provincial Airlines Limited	311	381
Tetra	299	2
City of St. John's	241	181
Newfoundland and Labrador Hydro	198	201
Newfoundland and Labrador Air Transport Ltd.	179	146
Travel Management	170	85
Mokami Travel Service Limited	143	106
Labrador Travel Air Ltd.	97	128
Household Movers and Shippers Ltd.	84	153
Active Movers Ltd.	12	298
Cable Atlantic	-	417
Miscellaneous amounts $100,000 and less paid to over 7,400 entities or individuals (2002 - over 7,400 entities or individuals)	17,573	19,414
Total	**37,574**	**37,440**

Source: Government's Financial Information System

2.6 Monitoring Agencies of the Crown

Introduction

Most agencies of the Crown do not have any requirement to report to the House of Assembly on the discharge of their responsibilities. As a result, a major role of the Office of the Auditor General is to monitor these entities in order to provide some accountability to the House of Assembly. Section 14 of the *Auditor General Act* requires the auditor of an agency of the Crown or a Crown controlled corporation to deliver to the Auditor General, after completion of the audit, a copy of the auditor's report, audited financial statements and recommendations to management. These financial statements and management letters along with our Office's audits of Crown agencies provide the basis for our monitoring of all Crown agencies.

As at 31 March 2003 there were approximately 149 (2002 -154) agencies of the Crown in the Province. Of these, 82 (2002 -87) were required to prepare annual financial statements, while the remaining 67 (2002 -67) were considered non-financial and did not prepare financial statements. Any expenditures related to the operation of these 67 non-financial entities are included with those of the Government department responsible for the entity and are audited annually as part of our audit of the Public Accounts of the Province.

Observations

Compliance with Section 14

Information contained in the audited financial statements and management letters of Crown agencies is maintained in our computerized system and provides the basis for our monitoring of all Crown agencies.

Of the 82 entities required to prepare annual financial statements, 29 (2002 -32) were audited by our Office while 51 (2002 -53) were audited by private sector auditors. Contrary to their governing legislation, the remaining 2 entities, the Memorial University Foundation and the Newfoundland and Labrador Occupational Therapy Board have never submitted audited financial statements.

As of 30 November 2003, the required audited financial statements had not been received from the private sector auditors for 8 of the 51 entities and the required management letters had not been received for 13 of the 51 entities. Figure 1 outlines the entities for which the required information was not provided by the private sector auditors.

2.6 Monitoring Agencies of the Crown

Figure 1

Required Information not Provided
As at 30 November 2003

Entity	Audited Financial Statements Provided	Management Letter Provided
Credit Union Deposit Guarantee Corporation	No	No
District #10 - Avalon East School District	Yes	No
Grenfell Regional Health Services Board	No	No
Newfoundland and Labrador Liquor Corporation	No	No
St. John's Nursing Home Board	No	No
Workplace Health, Safety and Compensation Commission	No	No
Health Care Corporation of St. John's	Yes	No
Multi-Materials Stewardship Board	No	No
Multi-Materials Stewardship Board Waste Management Trust Fund	No	No
Newfoundland and Labrador Cancer Treatment and Research Foundation	Yes	No
Western Health Care Corporation	Yes	No
Western Regional Health and Community Services Board	Yes	No
Municipal Assessment Agency Inc.	No	No

Furthermore, the majority of audited financial statements and management letters that were received from the private sector auditors were not received on a timely basis. On average, audits are completed and the auditors' reports signed within three months after the year end. However, in most cases the financial statements and related management letters are not received by our Office until another four months after the audit report date, and often only after follow-up by our Office.

Highlights from the Audits of Crown Agencies

As part of our monitoring of Crown agencies, we review audited financial statements and management letters resulting from audits completed by either private sector auditors or by our Office.

1. Highlights from Audited Financial Statements

The following issues were highlighted from our review of 72 audited financial statements received:

- For 23 entities (2002 -27) the financial statements reported a total bank indebtedness of $169 million (2002 -$123 million).

- For 3 entities the auditor's report contained a qualification as these agencies were not in compliance with generally accepted accounting principles regarding recording and amortizing capital assets. In 1 of these 3 entities, the auditor also reported a qualification because the Department of Education refused to confirm the existence of receivables totaling $135,852 owed to a school board.

2. Highlights from Management Letters

Figure 2 outlines the status of management letters, as of 30 November 2003, for the 80 entities audited by either private sector auditors or our Office.

Figure 2

Highlights from Management Letters
Years Ended 1 May 2002 to 30 April 2003

Information	Private Sector Auditor	Office of the Auditor General	Total
Management letters which identified issues	19	25	44
Management letters which indicated no issues identified	4	4	8
No Management letters issued	15	0	15
Management letters not finalized	13	0	13
Total	**51**	**29**	**80**

2.6 Monitoring Agencies of the Crown

The following points were highlighted from our review of the 44 management letters with identified issues:

- 4 (2002 - 2) letters identified instances of entities borrowing without legislative authority;
- 12 (2002 - 15) letters identified instances of weaknesses in controls over capital assets;
- 12 (2002 - 11) letters identified instances of weaknesses in controls over purchasing of goods and services including purchase orders not being used and purchases not being authorized;
- 6 (2002 - 12) letters identified instances of computer related issues such as the lack of a disaster recovery plan and the lack of controls over access to computerized information;
- 12 (2002 - 16) letters identified instances of weaknesses over the collection of accounts receivable; and
- 1 (2002 - 5) letter identified instances of non-compliance with the *Public Tender Act*.

2.7 Accounts and Loans Receivable in Government

Introduction

In previous reports to the House of Assembly, my Office has indicated that Government needs to significantly improve on its collections of amounts owed to it. Government's financial information indicates that it does not do a good job in collecting amounts owed to it. As a result, a significant portion of these amounts have been written off or are considered doubtful of collection. Figure 1 provides information on amounts owed to Government departments for each of the 12 years to 31 March 2003 along with the amount that Government considers to be uncollectible and amounts written off. These amounts owed include accounts and taxes receivable, as well as loans, advances and mortgages receivable.

Figure 1

Consolidated Revenue Fund
Accounts, Taxes, Loans, Advances and
Mortgages Receivable
Years Ended 31 March
($ Millions)

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	Total
Total Receivables	534	531	544	552	537	475	462	469	450	515	488	465	
Less: Amounts Considered to be Uncollectible	239	242	256	279	280	215	212	242	248	273	260	218	
Net Receivables	295	289	288	273	257	260	250	227	202	242	228	247	
Accounts Written Off	**1**	**80**	**14**	**5**	**21**	**70**	**8**	**2**	**13**	**2**	**19**	**32**	**267**

Source: Consolidated Revenue Fund Financial Statements

As Figure 1 indicates, at 31 March 2003 Government was owed $465 million of which $218 million is considered to be uncollectible. In addition, since 1992, Government has written off a total of $267 million.

Scope and Objective

Each year, we review Government's accounts receivable balance, and identify how much of its receivables has been written off, and how much of its receivables is considered as doubtful of collection.

2.7 Accounts and Loans Receivable in Government

Conclusion

Our review disclosed that Government has written off $267 million owed to it during the past 12 years. In addition, Government was owed $465 million as of 31 March 2003 of which $218 million was considered doubtful of collection. In my opinion, Government does not do a good job of collecting amounts owed to it.

Findings and Recommendation

Figure 2 provides details on the $465 million owed to Government as at 31 March 2003.

Figure 2

Consolidated Revenue Fund
Amounts owed to Government
31 March 2003
($ Millions)

Type of Receivable	Balance	Amount outstanding in excess of one year	Amount considered doubtful of collection
Crown Agencies	(Note 1) 188	3	109
Taxes receivable	146	54	51
Miscellaneous receivables	67	23	13
Social Assistance overpayments	27	26	14
Court fines	22	18	16
Commercial loans	14	11	14
Other	1	0	1
Total	**465**	**135**	**218**

Note 1: Of the $188 million relating to Crown Agencies, $118 million relates to Business Investment Corporation, the successor corporation of Enterprise Newfoundland and Labrador Corporation, the Fisheries Loan Board of Newfoundland and Labrador and the Farm Development Loan Board.

During the last 12 years Government has written off $267 million in accounts receivable owed to it. Details of these amounts written off are presented in Figure 3.

2.7 Accounts and Loans Receivable in Government

Figure 3

Consolidated Revenue Fund
Accounts and Loans Receivable Written Off
1992 to 2003
($ Millions)

Entity	Amount
Baie Verte Mines Inc.	47.5
Newfoundland Industrial Development Corporation	29.2
Hotel Buildings Limited	26.0
Newco Corporations	21.8
Newfoundland Environics Limited	15.2
Integrated Poultry Group of Companies	12.2
Enterprise Newfoundland and Labrador	10.9
Friede Goldman	10.0
Newfoundland Dockyard	8.1
Ocean Harvesters Limited	6.6
SCB Fisheries	6.5
Cape Pine Fisheries Ltd.	6.5
Miscellaneous amounts which are less than $300,000 individually	5.9
Social Assistance Overpayments	5.6
Fisheries Loan Board of Newfoundland	4.4
Department of Health	3.9
Court fines	3.9
St. Lawrence Fluorspar Limited	3.9
Fisheries Loans	3.8
Notre Dame Bay Fisheries	3.8
Universal Group of Companies	3.5
Other government departments - accounts written off	3.3

Figure 3 (cont.)

Entity	Amount
Harbour Grace Fishing Company Limited	2.4
Oceana Seafood Processors Limited	2.2
St. Clares Mercy Hospital	2.0
Superior Seafoods Limited	1.6
St. John's Metropolitan Area Board	1.5
Governor's Park Limited	1.4
Great Northern Seafoods Limited	1.4
Petty Harbour Fishermen's Producer's Co-operative Society Limited	1.3
Blue Ocean Products Limited	1.3
Gander Masonic Memorial Complex	1.2
Salvation Army Grace General Hospital	1.0
Reid's Products Limited	0.9
Petty Harbour Fisheries Ltd.	0.9
Belle Isle Seafoods Ltd.	0.8
S. T. Jones and Son Limited	0.8
White's Fisheries Limited	0.8
Northeast Coast Sealers Co-op Society Limited	0.6
Island Tile and Slate	0.5
Nordco Limited	0.5
Reg Petten	0.5
Sop's Arm Fisheries (1988) Limited	0.3
Ocean Kist Products (1970) Ltd.	0.3
Trouty Seafoods Limited	0.3
Total	**267.0**

2.7 Accounts and Loans Receivable in Government

In addition to the amounts written off totalling $267 million, during the years 1992 to 2003 the Province forgave taxes in the amount of $19 million and granted $25 million in tax remissions.

The presence of appropriate collection procedures is important, not only for purposes of reducing receivable balances, but also for use in developing historical collection information which can be used as a basis for establishing an appropriate allowance for doubtful accounts. The submission of complete and accurate information by departments is essential to the preparation of the Financial Statements of the Province. The lack of adequate collection efforts at departments is a contributing factor in Government's poor performance in collecting amounts owing to it.

As part of the audit of the Financial Statements of the Province for the year ended 31 March 2003, we reviewed the submissions made by the various departments to the Government Accounting Division of Treasury Board Secretariat for inclusion in the statements. Our review indicated that many of the accounts receivable balances included in submissions had been outstanding for lengthy periods of time, in many cases in excess of one year. We noted that collection efforts in many of these cases were inadequate and that related allowances for doubtful accounts were either not provided, considered as insufficient, or could not be adequately supported.

In 2002, I noted that Treasury Board Secretariat issued a letter to all deputy ministers regarding accounts receivable collection. The letter, dated 19 August 2002, referred to a decision by Treasury Board relating to a number of initiatives such as:

- Departments were directed to document policies and procedures relating to the collection of accounts receivable. However, officials of the Office of the Comptroller General have indicated that they did not follow up on this matter to determine whether departments complied with the directive.

- The Department of Finance, in consultation with the Office of the Comptroller General, was to establish a Central Provincial Collector function to provide assistance and training to departments in their collection efforts. However, although officials at the Department of Finance indicated that a plan has been developed, no Central Provincial Collector function has been established to date.

- The Department of Finance was to reinstate action to seek approval for Provincial participation in the Federal set-off program. However, officials at the Department of Finance indicated that, although a plan has been developed, the Federal set-off program is still not in place.

As a result, collection activity within Government requires improvement.

Recommendations

Government should be more diligent in collecting amounts owed to it.

The initiatives identified by Treasury Board should be implemented.

Treasury Board Secretariat's Response

I agree there should be improved diligence by departments in collecting their accounts and loans receivable. The departments are responsible for the timely collection and management of their accounts. We are committed to improving and strengthening the process for collecting monies owed to Government.

It should be noted that Government, by its nature unlike the private sector, will often extend credit to higher risk debtors (eg. students, entrepreneurs, etc.). Accounts are not written off until all reasonable measures have been taken to collect them. In keeping with generally accepted accounting practices, an allowance is recorded on the books to properly reflect the net receivables expected to be collected.

As you have indicated, departments were directed to ensure their collection policies and procedures are documented. The departments will be contacted to provide copies of these policies and to provide further information on their policies/procedures regarding estimation of allowances for doubtful accounts.

The Treasury Board Secretariat continues to be active in encouraging improvements in collections and related activities of the departments through analysis and feedback with respect to write-off requests, routine interaction with departments and provision of advice when requested. The Secretariat has been actively monitoring the delegated departmental write off process since it was implemented in 2002.

Department of Finance Response

The Department of Finance, in consultation with the Comptroller General's Office, is developing a plan which would establish a Central Provincial Collector function to provide assistance and training to departments in their collection efforts. Officials are concluding their analysis and are in the process of preparing a report which will summarize their findings and provide a proposed operational plan to implement a central provincial collections unit. Once the proposed plan is finalized it will need to be considered and approved by Government prior to being implemented.

The Department of Finance will seek approval to enter into an agreement with the federal government to participate in the federal-provincial Set-off Program. If approved, the Department of Finance would commence negotiations with the Canada Customs and Revenue Agency with respect to the implementation of the program at the earliest possible date.

2.7 Accounts and Loans Receivable in Government

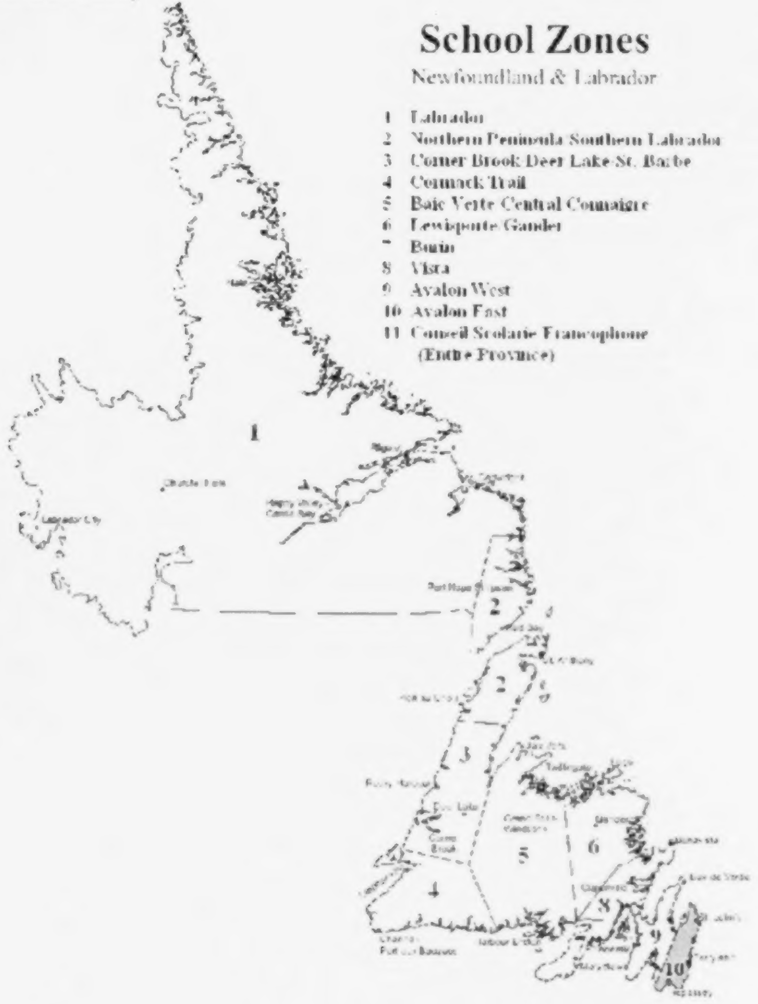
2.8 Avalon East School District

Introduction

District # 10 - Avalon East School Board has the largest student population of the 11 school boards in the Province. For the 2002-03 school year, the Board provided an educational program to 29,800 students in 65 schools located throughout the eastern Avalon Peninsula, from Holyrood, south to Peter's River and east, as shown in Figure 1.

Figure 1

Avalon East School Board Geographical Boundary


School Zones
Newfoundland & Labrador
1 Labrador
2 Northern Peninsula Southern Labrador
3 Corner Brook Deer Lake St. Barbe
4 Cormack Trail
5 Baie Verte Central Connaigre
6 Lewisporte Gander
7 Burin
8 Vista
9 Avalon West
10 Avalon East
11 Conseil Scolaire Francophone (Entire Province)
1
2
2
3
4
5
6
8
9
10

2.8 Avalon East School District

For the year ended 30 June 2003, the Board spent approximately $21.1 million to acquire goods and services.

Scope and Objectives

We completed a review in October 2003 of the acquisition of goods and services by the Avalon East School Board. Our review covered the period July 2002 to June 2003. The objective of our review was to determine whether the Board complied with the requirements of the *Public Tender Act* and *Regulations* in its acquisition of goods and services.

Conclusion

The Board contravened the *Public Tender Act* and *Regulations*. For example we found:

- For 7 purchases totalling $383,235, there was no public tender.

- For 5 purchases totalling $387,776, which were not tendered for a particular reason, the Minister, and therefore the House of Assembly, was not informed of these exceptions.

- For 2 purchases totalling $164,676, the Board did not follow the spirit and intent of the *Public Tender Act* by issuing tender specifications which were so specific that competition was restricted.

- In 1 instance a tender valued at $29,750 was awarded to a non-compliant bidder in that the contractor did not meet the tender specifications which required that snow clearing equipment have a minimum horsepower and capacity.

- For 9 purchases totalling $44,490, the Board neither obtained three quotations nor provided documentation that a fair reasonable price was established.

- There were a number of issues relating to the lack of documentation required by the *Regulations*. For example, tender files did not always contain evidence of the day and time that a bid was received, whether the tenders were opened at the time advertised, and whether two people were present when the tenders were opened.

We identified 3 instances where the Board paid $11,223 more than the required tender or quoted amount. As a result of our finding the Board subsequently recovered $8,520 of this amount.

2.8 Avalon East School District

Findings and Recommendations

Background

The *Public Tender Act* requires the Board to invite tenders where the cost of goods and services is more than $10,000 or a public work is more than $20,000. The *Act* provides exceptions where tenders may not be required to be invited and in these cases the Minister of Works, Services and Transportation must be informed. The Minister in turn will table a report in the House of Assembly. The *Public Tender Regulations, 1998* outline requirements that have to be followed when issuing a tender, opening a tender and documentation required to be maintained.

The *Act* also requires that, where the cost of goods and services is $10,000 or less or public work is $20,000 or less, the Board shall obtain quotations from at least three legitimate suppliers or establish for the circumstances a fair and reasonable price.

Findings

We selected the 50 purchases greater than $10,000 for the period 1 July 2002 to 30 June 2003 to determine the Board's compliance with the *Public Tender Act* and *Regulations*. Of these 50 purchases, 42 purchases were for goods and services greater than $10,000 and therefore were required to be tendered, while the remaining 8 purchases, each less than $20,000, related to a public work and therefore were not required to be publicly tendered. Of the 42 purchases requiring a public tender, 12 were not tendered, 24 were tendered by the Board and 6 were purchased under Government's standing offer agreements.

We also selected 20 purchases $10,000 or less and the 8 public works $20,000 or less to determine whether the Board complied with the requirement of the *Public Tender Act* to obtain either three quotes or establish for the circumstances a fair and reasonable price.

Our review indicated that the Board contravened the requirements of *the Public Tender Act* and *Regulations*. For example, not all required purchases were tendered, not all exceptions were provided to the Minister for forwarding to the House of Assembly, purchase orders were split in an attempt to avoid the public tender threshold, tender specifications were sometimes so restrictive that potential bidders would be eliminated, contracts were awarded to non-compliant bidders, and there wasn't always documentation to indicate that either three quotes were obtained or that a fair and reasonable price was established for purchases $10,000 or less and for public works $20,000 or less.

Details of our findings are as follows:

1. No Public Tender Called

Our review of the 12 purchases where the Board did not call a public tender indicated the following:

In 7 purchases over $10,000 and totalling $383,235, the Board did not call a public tender as required by the *Act.*

- During the year, the Board paid $37,009 for an annual monitoring contract of burglar alarm systems at various schools. The Board indicated that it did not tender for these services as the supplier providing the inspections was the same supplier of the burglar alarm systems or was already providing similar services for the Board. The *Act* does provide an exemption to the public tender process if the supplier providing the service is the only source of that service; however, given the nature of the service provided to the Board, more than one supplier is available to provide the service, and as such, the purchase should have been publicly tendered.

- In March 2002, the Board entered into a five-year lease agreement for a colour photocopier at an annual lease cost of $18,720 without requesting public tenders.

- In August 2002, the Board entered into a five-year lease agreement for a mail/postage machine at an annual lease cost of $17,218 without requesting public tenders.

- During the year, the Board paid $264,790 under a lease agreement for 34 photocopiers. The contract commenced in November 1999 for a four-year period and was a renewal of an agreement dating back to the former school board system. Therefore, the contract was entered into without requesting public tenders.

  Furthermore, our review identified that the 1999 lease agreement was for $246,716 annually plus the annual copy reconciliation fee. However, the Board is currently paying $264,790 i.e. $18,074 annually more than the original lease agreement stipulated. Board staff indicated that the increase in cost was a result of additional and replacement photocopiers placed in the schools.

- In August 2002, the Board purchased door accessories costing $21,802 as part of renovations to an existing school. There was no public tender issued for this purchase.

  Furthermore, although the purchase was made on 13 August, 2002, the purchase order for this transaction was not issued until 21 October 2002, over two months after the purchase was made.

- In October 2002, the Board purchased worktables totalling $13,198 for a school. The purchases were made using two purchase orders, each less than $10,000, prepared on the same day and for the same supplier. Purchases should not be split to avoid the requirement for public tenders. As a result, there was no public tender issued for this purchase.

- In June 2002, the Board purchased four multimedia projectors and presentation software totalling $10,498. The purchases were made using two purchase orders, each less than $10,000, prepared on the same day and for the same supplier. Purchases should not be split to avoid the requirement for public tenders. As a result, there was no public tender issued for this purchase.

In 5 purchases over $10,000 and totalling $387,776, where the Board determined that a public tender was not required, the Minister, and therefore the House of Assembly, was not informed of these exceptions as required by the *Act*.

- In August 2002, the Board paid $36,921 for emergency repairs to a vandalized school. Board staff indicated that time did not permit the Board to publicly tender the purchase and a contractor that was already on site was used.

  Furthermore, although the purchase was made on 31 August, 2002, the purchase order for this transaction was not issued until 18 September 2002, over two weeks after the purchase was made.

- In July 2003, the Board entered into an agreement valued at $38,200 per year for the maintenance of its financial management software. Board staff indicated that the supplier was the previous vendor and the only known supplier which could support their financial system.

2.8 Avalon East School District

- In July 2002, the Board paid $51,923 and in September 2002 it paid $29,911 to one vendor for support of its software packages. Board staff indicated that they do not tender annually for these software support agreements as there is only one supplier which can provide the required support.

- In November 2002, the Board paid $23,765 for 1,750 user licences for its virus protection software. The Board indicated the supplier was the sole source for the licencing of this virus software.

- In January 2002, the Board entered into a five-year lease agreement for the lease of office space at a cost of $207,056 annually. The agreement was a renewal of a five-year lease agreement from 1997 which allowed for a one five-year renewal option under the same terms and conditions. The *Act* requires that the Minister be notified in instances when a lease is renewed in accordance with a renewal option and under the same terms and conditions of the existing lease.

2. Issues Relating to Purchases Publicly Tendered

Our review of the 24 purchases where the Board did call a public tender indicated the following:

In 2 purchases over $10,000 and totalling $164,676, the Board did not follow the spirit and intent of the *Public Tender Act* by issuing tender specifications which were so specific that competition was restricted.

- During the year, the Board paid $106,529 to one supplier for the supply of computer equipment. Although the Board issued a public tender in September 2002 for the supply of computer equipment, it requested a specific brand name. The tender specifications stated that "*In keeping with AESD's current standardization on IBM workstations, no other manufacturer's products may be substituted*". We note that only two tender bids were received for this computer equipment.

  Furthermore, although Government has a standing offer agreement for the supply of computer equipment, the Board did not avail of this agreement. A review of the standing offer agreement covering the 2002-03 fiscal year indicated that some of the computer equipment was priced lower than the amount paid by the Board as a result of this tender. For example, the Board purchased 28 - 17" IBM monitors at a cost of $6,873 while at the same time similar 17 " monitors could have been acquired under standing offer agreements for $5,320.

2.8 Avalon East School District

- In November 2002, the Board tendered for a multimedia system. The tender specifications were developed by a company and included very detailed and specific technical requirements including such things as the exact weight and dimensions of the equipment required. The development of the tender specification by this company was expected to cost $500. The only bidder on the tender was the company which developed the specifications and the $58,147 contract was awarded to them.

  Documentation on file further indicated that the $500 specification design fee would be waived if the company received the tender. Therefore, the $500 was waived.

In 1 instance, contrary to the *Public Tender Act*, a tender was awarded to a non-compliant bidder in that the contractor did not meet the tender specifications. In this instance a contract for snow clearing valued at $29,750 for the year was awarded to a contractor even though their snow clearing equipment did not meet the minimum requirements for horsepower or capacity.

There were a number of control issues identified relating to the 24 purchases over $10,000 that were publicly tendered and 5 purchases which, although only requiring three quotes, were also publicly tendered.

- In 2 instances, the Board paid more than the tender amount.

  - Although the tender provided for a charge of $25 for garbage lifts, the contractor charged and the Board paid $40 per garbage lift. During the year there were 238 such garbage lifts which resulted in an overpayment of $3,570 for the year.

    This contractor had other garbage contracts with the Board, and when we brought the matter to the Board's attention they eventually received a credit of $6,866 from the contractor relating to all previous overpayments.

  - One day after a contractor was awarded a tender for $18,020 for a partitioned-folding wall, they contacted the Board indicating that they made an error and that the price had to be increased by $2,703 for HST. The Board agreed with the increase reasoning that it was still the lowest bid on the project. As a result, the Board paid the $20,723 which was higher than the tender amount.

- There were a number of issues relating to the lack of documentation required by the *Regulations*.
    - For 24 of the 29 tender files reviewed, the Board did not have any documentation on file, such as a time and date stamp on the bids submitted by suppliers, to show that all bids received were received before the closing of the tender.
    - For 16 of the 29 tender files reviewed, the Board did not have any documentation on file, such as a tender opening report signed by two people, to show that the tenders were opened publicly.
    - None of the 29 tender files included documentation to show whether the tenders were opened at the time specified in the tender ad.

3. Purchases Requiring Quotes

A review of 28 purchases requiring that either three quotes be obtained or that a fair and reasonable price be established identified the following:

- For 17 purchases, the Board either obtained three quotations or provided documentation that a fair and reasonable price was established. However, 1 of the 17 purchases was made prior to the purchase order being issued. The purchase was made between 8 July and 24 July 2002 while the purchase order for this transaction was not issued until 26 July.

- For 9 purchases totalling $44,490, the Board contravened the *Act* as it did not obtain three quotations or provide documentation that a fair reasonable price was established.

  Furthermore, in 1 of these 9 purchases relating to the acquisition of plumbing supplies we identified that the Board was paying more than the supplier had originally quoted. For example, in one instance an invoice for $5,308 included items that were charged at 25% in excess of the quoted price. After we brought this matter to the Board's attention it received a credit of $1,654 related to the overcharges. In addition, although the purchase was made on 9 July 2002, the purchase order for this transaction was not issued until 26 July 2002, over two weeks after the purchase was made.

- For 2 purchases, the Board indicated that the purchase was a sole source and therefore three quotations were not obtained. The *Act* states that three quotes shall be obtained or that a fair and reasonable price be established for all purchases $10,000 and less. However, the Board's policy states that three quotes will be obtained for all purchases over $1,000. Therefore, the Board's policy is not consistent with the *Public Tender Act*.

Recommendations

The Board should comply with the Public Tender Act *and* Regulations.

The Board should ensure that amounts paid are in agreement with contract amounts.

Board's Response

The Board has in all incidents implemented procedural changes to make every effort to comply with the Public Tender Act *and* Regulations. *In a number of situations it was noted in the report that purchases were split to avoid tendering. As explained, this is not the case and where the appearance of this occurred an explanation was given. Having said this every reasonable effort will be made to combine purchases and thereby tender for the provision of the goods and services.*

1. No Public Tender Called

- *In 1997, with the amalgamation of Districts, a number of security vendors were in place within the newly formed District. One vendor had the contract for the majority of the schools. This vendor had equipment in place which it owned. In order to align the various contract conditions and the renewal of these contracts the Board signed a 5 year monitoring contract with the existing vendor. This 5 year contract expired in 2002 and in accordance with the contract has been renewed annually since that time. The District will tender the monitoring of security systems in 2003/04 fiscal.*

- *The District tendered photocopiers in February of 2001. Modern Business Equipment Limited was the successful candidate for copiers in the volume range of 2000-10000 copies per month and therefore were considered vendor of choice at that time. The district used this tender document to purchase the equipment.*

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- *There was an existing lease with Pitney Bowes for mail equipment which had approximately 2 years left before expiry. This equipment, namely the mail sorter, could not perform the function the District required to distribute teacher payroll cheques. The District renegotiated the existing lease with Pitney Bowes to acquire the correct mail sorter. Pitney Bowes took back all the old equipment and issued new equipment. If the District had tendered this purchase it would still have been obligated to the supplier for the original lease. It was felt at the time that the approach taken was the most economical and effective under the circumstances.*

- *The Xerox lease was originally done in 1995 by the old Roman Catholic School Board. At that time all the schools under the Board did their own lease agreements. In 1995 there were a lot of older copiers out in the schools with still a few years of payments left. The Board took over these individual leases (31 in all) and consolidated them into one large lease. Thus the payment of approx. $61,000/quarter.*

  During 1999 the District closed approximately 18 schools. Due to the re-organization of these students, the majority of remaining school populations increased dramatically thereby placing a higher demand on copiers in the remaining schools. Schools were finding that the copiers they had before consolidation were not adequate to meet the demand of the new higher school populations.

  Also, the District had 18 or more excess Xerox copiers in their possession. What the District did at this time was reallocate machinery to meet the demand where possible. Then the left over machinery was taken back by Xerox and new equipment installed to complete meeting the demands of schools. We must remember that the Xerox lease still had some time left at that point and we would have had to purchase any excess equipment left after consolidation. Most of this equipment was old and obsolete. Therefore Xerox agreed to take back this old equipment, replace where necessary and extend the lease (Thereby increasing the quarterly payment from $61K-66K). At the time this option was felt to be the most economical one since we were responsible for all equipment leased through Xerox.

- *We recognize the error in this circumstance* [door accessories] *and are developing procedures to prevent these types of oversights in the future.*

- *These purchase orders* [worktables] *were not split to avoid the requirement for public tender. They originated at the school level and were generated by different people. There were three quotes for each item. The industrial arts teacher received quotes for one and the computer resource teacher received quotes for the other. We are currently investigating means of ensuring that these types of expenditures are consolidated for public tender in the future.*

- *We recognize the error* [multimedia projectors] *and have discussed your findings with appropriate staff involved.*

The District has put in place procedures to ensure the proper documentation will be sent to the Minister of Works, Services and Transportation for tabling in the House of Assembly on a timely basis.

2. Issues Relating to Purchases Publicly Tendered

- *The Auditor General's report seeks to address computer purchases purely on a cost-per-item basis, however the report does not compare like-products between the AESD tender and Government's Standing Offer (GSO). For the period in question, GSO did not allow for the offering of a higher specification on processors and operating systems, for example, GSO does not allow vendors to provide faster processors than those explicitly listed; the AESD tender does allow this since it provides increased value to the purchaser at the same price. Consequently, AESD is in fact getting better value for dollars spent than GSO by allowing for substitution.*

  In 2000 the District determined that, given a technical support staff of four people, the only way to support 65 schools with 3000 workstations and over a hundred servers was to standardize. Having a common machine platform yields significant savings in support time. Common solutions may be found for common problems, and these solutions are then universal across the District. Changing vendors every few months means all trouble-shooting/support must be replicated on each individual platform. For this reason a manufacturer-independent tender was done in August, 2000; IBM was the successful manufacturer on this tender. In the subsequent tender of 2002, the IBM standard was maintained, however the vendor is still open to full competition. In St. John's alone, IBM-K12, xwave, MicroAge, and Sona all sell IBM products. Consequently the intentions of the act, fair and transparent purchasing, are being followed. Additionally two local companies perform warranty service, spreading the value of *the tender to the local community versus being tied to a single vendor.*

The separate tender price for 17" monitors is provided as a service to the District schools (the monitor manufacturer is not mandated as a District standard). While the pricing is marginally higher than GSO, the warranty is also three years onsite versus GSO warranty which is second and third year depot. Additionally, schools find value in dealing with a single vendor for purchases versus splitting orders.

- *The District does not have staff with the expertise required to write detailed specifications for such a system. Consequently the District contracted for specifications to be written to the standards of the International Communications Industry Association; more than one vendor in Newfoundland is accredited by this organization. Additionally the industry has few manufacturers for many brands. While the specification-drafter was also the successful bidder, no other vendor visited the site (which was pre-arranged as part of the tender) or questioned the District regarding products having equivalent specifications to those in the tender.*

- *This tender* [snow clearing] *only received two bidders. The higher bidder already had won a number of contracts and therefore did not have the equipment to service this particular contract. The lower non compliant bidder has done work for the District in the past with a successful rating. Based on this the District decided to award to the non compliant bidder since his performance in the past has been satisfactory and no other bidder was able to assume the contract.*

- *We have placed controls in place to ensure this error* [overpayment on contract] *does not happen in the future. All purchases have to go through our requisition process which uses a commodity listing with prices built in. This should mitigate any errors of this type in the future.*

- *Upon review of this tender file* [partitioned folding wall] *it was noted that the second qualified bidder for this job was over $9,000 higher than the preferred bidder. The successful bidder wrote a letter to the District stating there was an error and the price did not include HST. In the future, a bid bond will be required on all tenders to ensure we have recourse for bidders in such an event.*

2.8 Avalon East School District

The Board has a process in place where all tenders are date and time stamped on the envelope and placed in a locked box upon receipt. Upon opening, the envelopes were not kept on file. In future all envelopes will be kept with the date and time stamp on them.

For these tenders the file contained the tender opening summary report on all the pricing and bidders. The reports were not signed by three witnesses. In future two witnesses along with the opener of the tenders will all sign the tender opening reports.

Tenders are opened upon tender closure at the School Board offices at the pre advertised times. The time of opening will be added to the tender opening report summary.

3. Purchases Requiring Quotes

We are currently putting procedures in place to ensure all purchases greater than $1,000 but less than $10,000 have three quotes on file. No purchase order will be issued in the future without appropriate documentation. The School Board issued 8645 Purchase Orders in the 2002/03 year totalling $4,516,446. The decentralized nature of the board with its 66 schools makes ensuring the acquisition of 3 quotes for all purchases regardless of value unmanageable.

In an effort to comply with the Public Tender Act *and make the purchase of items more manageable the Board has set a policy that would comply with section 9 (b) of the* Public Tender Act. *"Establish for the circumstance a fair and reasonable price ..... in a manner that the government funded body considers advisable."*

2.8 Avalon East School District

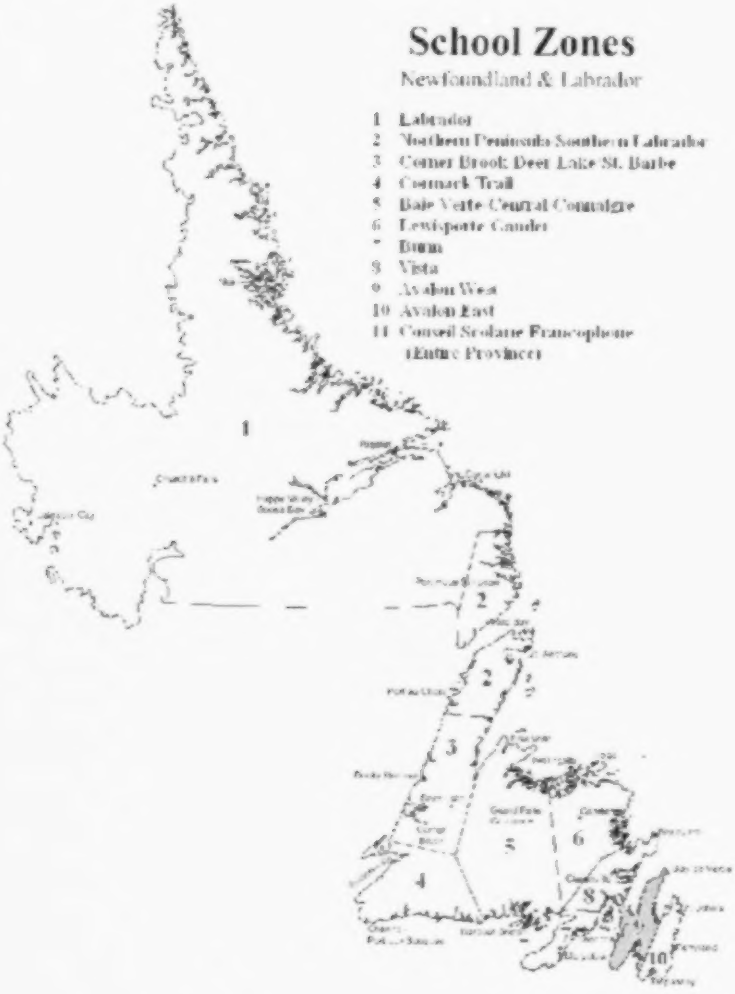
2.9 Avalon West School District

Introduction

District # 9 - Avalon West School Board has the second largest student population of the 11 school boards in the Province. For the 2002-03 school year the Board provided an educational program to 9,571 students in 32 schools located throughout the western half of the Avalon Peninsula, from Southern Harbour, east to Holyrood and south to Peter's River, as shown in Figure 1.

Figure 1

Avalon West School Board Geographical Boundary


School Zones
Newfoundland & Labrador
1 Labrador
2 Northern Peninsula Southern Labrador
3 Corner Brook Deer Lake St. Barbe
4 Cormack Trail
5 Baie Verte Central Connaigre
6 Lewisporte Gander
7 Burin
8 Vista
9 Avalon West
10 Avalon East
11 Conseil Scolaire Francophone (Entire Province)
1
2
2
3
4
5
6
8
10

2.9 Avalon West School District

For the year ended 30 June 2003 the Board spent approximately $8.7 million to acquire goods and services.

Scope and Objective

We completed a review in October 2003 of the acquisition of goods and services by the Avalon West School Board. Our review covered the period July 2002 to June 2003. The objective of our review was to determine whether the Board complied with the requirements of the *Public Tender Act* and *Regulations* in its acquisition of goods and services.

Conclusions

The Board contravened the *Public Tender Act* and *Regulations*. For example we found:

- For 7 purchases totalling $259,953, there were no public tenders.
- For 3 purchases totalling $39,190, which were not tendered for a particular reason, the Minister, and therefore the House of Assembly, was not informed of these exceptions.
- For 3 purchases totalling $87,525, the Board did not follow the spirit and intent of the *Public Tender Act* by issuing tender specifications in 2 instances which referred to a specific model and in 1 instance by issuing tender specifications which were so specific that competition was restricted.
- For 6 purchases totalling $25,685, the Board neither obtained three quotations nor provided documentation that a fair and reasonable price was established.
- There were a number of issues relating to the lack of documentation required by the *Regulations*. For example, tender files did not always contain evidence of the time and date that a bid was received and whether two people were present when the tenders were opened.

The Board has purchased equipment through financing arrangements totalling $273,355 without obtaining the prior approval of the Minister of Education as required by the *Schools Act, 1997*.

Findings and Recommendations

Background

The *Public Tender Act* requires the Board to invite tenders where the cost of goods and services is more than $10,000 or a public work is more than

$20,000. The *Act* provides exceptions where tenders may not be required to be invited and in these cases the Minister of Works, Services and Transportation must be informed. The Minister in turn will table a report in the House of Assembly. The *Public Tender Regulations, 1998* outline requirements that have to be followed when issuing a tender, opening a tender and documentation required to be maintained.

The *Act* also requires that, where the cost of goods and services is $10,000 or less or public work is $20,000 or less, the Board shall either obtain quotations from at least three suppliers or establish for the circumstances a fair and reasonable price.

Findings

We selected the 34 purchases greater than $10,000 for the period 1 July 2002 to 30 June 2003 to determine the Board's compliance with the *Public Tender Act* and *Regulations*. Of the 34 purchases requiring a public tender, 10 were not tendered, 17 were tendered by the Board, 5 were purchased under Government's standing offer agreements and 2 were exempt.

We also selected 19 purchases $10,000 or less and 1 public works $20,000 or less to determine whether the Board complied with the requirements of the *Public Tender Act* to either obtain three quotes or establish for the circumstances a fair and reasonable price.

Our review indicated that the Board contravened the requirements of *the Public Tender Act* and *Regulations*. For example, not all required purchases were tendered, not all exceptions were provided to the Minister for forwarding to the House of Assembly, purchase orders were split in an attempt to avoid the public tender threshold, tender specifications were sometimes so restrictive that potential bidders would be eliminated, and there wasn't always documentation to indicate that either three quotes were obtained or that a fair and reasonable price was established for purchases $10,000 or less and for public works $20,000 or less.

Details of our findings are as follows:

1. No Public Tender Called

Our review of the 10 purchases where the Board did not call a public tender indicated the following:

In 7 purchases over $10,000 and totalling $259,953, the Board did not call a public tender as required by the *Act*.

2.9 Avalon West School District

- In March 2002, the Board requested and received a quote totalling $30,264 for the supply of drapery for 8 schools. On 26 April 2002, six purchase orders totalling $19,862 and on 17 May 2002, three purchase orders totalling $13,400 were issued relating to the quotes obtained in March. Purchases should not be split to avoid the requirement for public tenders. As a result, there was no public tender issued for this purchase.

- In October 2002, the Board entered into a three-year agreement totalling $58,500 for maintenance of its duplicating machines without requesting public tenders. This maintenance work also included the supply of ink.

- In November 2002, the Board requested quotes for the supply of at least 40 computers. On 11 December 2002, 19 computers were purchased for $9,998 and on 12 December 2002, 4 computers were purchased for $2,065, all from the same company that had provided a quote. Purchases should not be split to avoid the requirement for public tenders. As a result, there was no public tender issued for this purchase.

- In February 2003, the Board entered into a five-year agreement totalling $67,200 for maintenance of its 14 elevators without requesting public tenders. In 2001, the Board obtained quotes from two suppliers for the servicing of its elevators, evidencing that there is more than one supplier for this service.

- In February 2003, the Board purchased a digital photocopier and a five-year maintenance agreement totalling $10,500. The purchase was made on two separate invoices, on the same day and to the same supplier, with each invoice being less than the $10,000 amount requiring a public tender under the *Public Tender Act*. Purchases should not be split to avoid the requirement for public tenders. As a result, there was no public tender issued for this purchase.

- In April 2003, the Board entered into a one-year software maintenance agreement totalling $10,795 without requesting public tenders.

- From 1 July 2002 to 30 June 2003 the Board purchased janitorial supplies totalling $67,633 from one supplier without requesting public tenders. Furthermore, although the Province does have a standing offer agreement for janitorial supplies, the Board did not avail of this agreement.

2.9 Avalon West School District

In 3 purchases over $10,000 and totalling $39,190, where the Board determined that a public tender was not required, the Minister, and therefore the House of Assembly, was not informed of these exceptions as required by the *Act*.

- In February 2003, the Board purchased two oil tanks costing $10,800 that were deemed to be a pressing emergency and therefore not publicly tendered. These items were purchased under two separate purchase orders, each for less than $10,000.

- In February 2003, the Board purchased robotic supplies costing $13,672. The Board indicated that this was the only known supplier for these items.

- In March 2003, the Board purchased robotic supplies costing $14,718. The Board indicated that this was the only known supplier for these items.

2. Issues Relating to Purchases Publicly Tendered

Our review of the 17 purchases where the Board did call a public tender indicated the following:

In 3 purchases over $10,000 and totalling $87,525, the Board did not follow the spirit and intent of the *Public Tender Act* by issuing tender specifications which were so specific that competition was restricted. For example:

- In July 2002, the Board requested tenders and subsequently purchased school furniture totalling $60,322. In requesting tenders for the furniture, the Board identified a particular model number or equivalent in the tender specifications. The company whose model numbers were stated was the successful bidder for the furniture as a whole; however, particular items could have been purchased at a lesser cost from other suppliers. For example, four and five door lateral filing cabinets were purchased at a cost $705 and $895 respectively; however, similar filing cabinets were available under government standing offer for $370 and $485 respectively.

- In September 2002, the Board purchased playground equipment costing $14,680. In requesting tenders for the equipment, the Board used a particular supplier's product specifications for playground equipment as part of the tender specifications. In this instance the lowest bidder was not accepted because it did not the meet the specifications of the stated model number.

- In January 2003, the Board purchased furniture and equipment totalling $12,523. In requesting tenders for the furniture and equipment, the Board identified a particular model number or equivalent in the tender specifications. The company whose model numbers were stated was the only bidder for the furniture and equipment.

There were a number of issues relating to the lack of documentation as required by the *Regulations*.

- None of the 17 tender files included documentation such as time and date stamp on the bids submitted by suppliers to show that all bids were received before the closing of the tender.

- In 1 instance, there was no attendance sheet on file to verify that the tender was opened publicly.

3. Purchases Requiring Quotes

A review of 20 purchases requiring that either three quotes be obtained or that a fair and reasonable price be established identified the following:

- For 13 purchases, the Board either obtained three quotations or provided documentation that a fair and reasonable price was established.

- For 6 purchases totalling $25,685, the Board contravened the *Act* as it did not obtain three quotations or provide documentation that a fair and reasonable price was established.

- For 1 purchase valued at $10,000, the Board indicated the purchase was a sole source and therefore three quotations were not obtained.

4. Other Issues

The Board entered into financing arrangements to purchase photocopiers, computers and hand towel dispensers totalling $273,355. The *Schools Act, 1997* requires the Board to obtain the prior approval of the Minister of Education in order to borrow; however, no such approval has been requested.

Recommendations

The Board should comply with the Public Tender Act *and* Regulations.

The Board should obtain the prior written approval of the Minister of Education as required by the Schools Act, 1997 *before entering into any borrowing arrangement.*

Board's Response

1. Purchases Not Tendered

Vertical Blinds / Stage Drapery costing $33,262

From our observation, there is no violation of the Act.

It is normal for the Board to revise its budget based on the availability of funds and changing priorities. In the instance noted, the Board obtained three quotes for the supply and installation of draperies and the initial purchase was less than the $20,000 limit provided in the Act ***for public works*** *projects. A minimum of three written quotes were obtained for all schools involved. Less than one month later, additional schools were selected for new draperies. The staff determined from discussions with suppliers that no new pricing information could be obtained from new quotes and therefore preceded to purchase additional quantities based upon the previous quotes. It is a normal business practice for a vendor to hold quoted prices for sixty days. To purchase from an existing quote within this timeframe is not unreasonable.*

Maintenance on Duplicating Machines $58,500

In September 1997, the Board tendered for twenty digital duplicators for schools throughout the district which included a five-year contract for service and maintenance. At the end of the maintenance agreement it was determined that the duplicators had an additional three years of service life. The Board was the owner of the units at this point and had only two options: one – to extend the maintenance contract or two – tender for twenty new duplicators. The latter option was cost prohibitive and *wasteful. In order to extend the maintenance contract, the Board had to deal with the existing vendor due to the fact that the supplier had exclusive distribution rights for the equipment, parts and all supplies (consumables). The Board should have notified the Minister of Works & Services on the appropriate form.*

Purchase of refurbished computers - $12,063

In September 2002 the Board implemented a cost-share program with its schools through which the Board would contribute up to 50% of the capital cost of acquiring instructional equipment. Schools, therefore, had to raise the necessary funds to participate in this program. A number of schools decided that they wished to acquire computers under this arrangement and each order was processed when it was verified that the schools had obtained necessary funding levels to acquire the equipment. These purchases, therefore, were not dependent upon the availability of public funds but rather upon the ability of each individual school to raise the funds for this purchase. Since each school was approved individually, each purchase was processed individually. It should be noted that only 50% of the $12,063 was government funds, the rest was raised by parents in a drive to obtain computers for their schools and therefore quotations were acceptable under this circumstance.

Five-Year maintenance contract of fourteen elevators - $67,200

In February 2003 it was determined that the Board did not have elevator maintenance contracts at nine schools. Steps were taken to put contracts in place immediately to preserve safety in our school buildings. Upon review of our contracts it was noted that the Board had a revolving maintenance agreement already in place for five elevators. The Board negotiated to have all fourteen units covered at a price that was 35% less than what we had already been paying the service company under the existing contract. The Board had been experiencing significant difficulties having our elevators serviced by other contractors or suppliers in the past and felt that the vendor with the current contract would be the only contractor that could meet our service needs. It should be noted that while the contract is for a five-year period, the Board successfully negotiated a 60-day without cause termination clause in the new contract. We acknowledge that a Form B should have been completed.

Digital Photocopier - $10,500

This purchase was made based upon tender pricing from our most recent photocopier tender.

2.9 Avalon West School District

Two oil tanks - $10,800

The Board deemed this purchase an emergency. But should have been reported as such on the appropriate forms.

Purchase of robotic supplies - $13,672

These purchases were made under a 100% federally funded program through HRDC (Robotics-YSC #25361). The program required the purchase of certain capital equipment that would meet the educational objectives and the requirements of the contract. Under the program, any equipment purchase cost exceeding $250 required the specific approval of HRDC. During the course of the project the Board was subject to monthly reports, claim forms and periodic audits by HRDC staff.

Purchase of robotic supplies - $14,718

See item above.

One-year software maintenance agreement - $10,795

The Board had successfully negotiated the free use of software from the vendor for a trial period of two years in November 1999. The software was utilized by the Board and a significant intranet and email system was developed using this software as its platform.

Subsequent to the trial period, the Board was requested by the vendor to purchase the product in 2001. The Board then negotiated the donation of the software but agreed to pay the annual licensing fee.

This software is an exclusive product of the vendor and the tender or quote process would have yielded no difference in cost to the Board. The Board acknowledges that Form B should have been completed for this purchase.

Purchase of janitorial supplies - $67,633

The Board has not used the standing offer agreement for cleaning products and supplies for a number of years due to quality & container size/weight concerns expressed by our cleaning staff. As a consequence the Board has been tendering for its own chemical supplies. A tender for cleaning chemicals, quality assurance & training program expired in June 2002. The Board should have re-tendered these services at that time.

It is very possible that the $67,633 noted by the auditor did have items that we did obtain specific quotes for, however, we were not provided a detailed break down of the transactions making up the $ 67,633 balance.

2. Purchases Tendered

Tender specifications based on particular models

We acknowledge the comments made but do not see any non-compliance with the Act.

It should be noted that smaller organizations with smaller staffs do not have the time or, in some cases, the expertise necessary to develop detailed specifications. We therefore sometimes rely on existing manufacturers specifications for equipment/materials that meet our requirements but we always note that "equivalent" products will be accepted. Also, it is generally our practice to use a composite of several existing manufacturers specifications to develop the final requirements. This was clearly demonstrated in the other 14 of 17 tenders audited.

Furniture - $60,322 & $12,523

From our observation, there is no violation of the Act.

There was no detailed comparison by the auditor of the filing cabinet specifications of the other supplier to verify that the same specification was being offered, and that in fact the Board had foregone any savings.

Tender deadline

From our observation, there is no violation of the Regulations.

Upon review of all the Board's tender documents, it has been a consistent practice that the tender closing time and the time of public opening are the same. This eliminates the possibility of late tenders being considered, which was supported through the record of attendance that is signed by all witnesses present at the opening.

Time & date stamps are always used on the outside package of the tender submission, however the outside package of the tender proposal is never kept on file.

3. Purchases Requiring Quotes

Since the details of the purchases referred to in this section of the audit report are not described in detail we will not be able to address specific non-compliance allegations. However, we would like to address two specific issues/concerns:

2.9 Avalon West School District

Purchasing Staff

The Board is not resourced to the level necessary to ensure that our purchasing practices are without fault. Our primary goal is to ensure schools are kept open and maintained in a safe and comfortable condition to facilitate student learning.

While the Board does all in its power to comply with appropriate legislation, we do not have the staff or the financial resources to facilitate the necessary training required to ensure all our staff who are involved in purchasing are thoroughly familiar with the regulatory/legislative requirements.

Postage by Phone - $10,000

This represents the electronic purchase of postage for mailing letters, parcels, etc. Postage by Phone sells postage on behalf of Canada Post and charges the Board a processing fee for the ease of refilling the postage meter on site. The program simply allows the customer to get its meter replenished electronically without physically taking the meter to the local Post Office.

4. Other Issues - Financing Arrangements

The Board has entered into leasing agreements to purchase photocopiers, computers and hand towel dispensers. However, the Schools Act, 1997 *does* ***not*** *require the Board to obtain the prior approval of the Minister of Education to enter into lease agreements. Approval of the Minister has been obtained in the past to secure operating lines of credit and capital construction funds where required.*

The Board's operating grant is determined by the Department of Education. As well, the Board is prevented through the Schools Act, 1997 *from incurring a deficit without the prior approval of the Minster of Education. It has been our understanding that as long as leases are being funded through our operating grant and the Board is not creating a deficit position by entering into a lease agreement then these transactions are acceptable. The Minister has never requested that lease arrangements be approved prior to execution.*

In addition, the Board has fully disclosed all financial obligations, including leases, through it annual audited financial statements that clearly indicate all lease arrangements have been funded through operating budgets approved by the Minister.

2.9 Avalon West School District

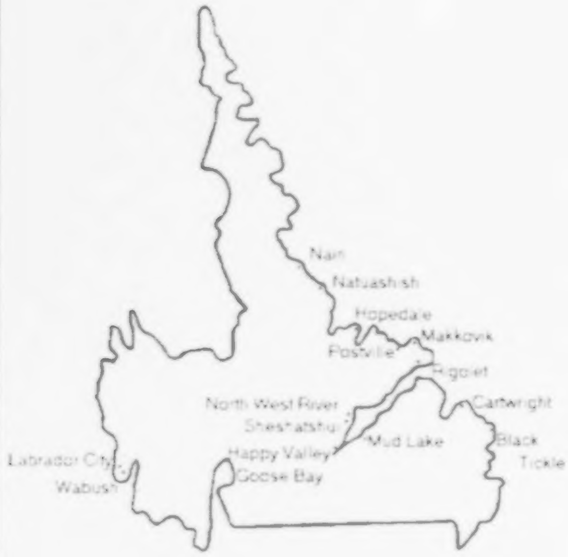
2.10 Labrador School District

Introduction

The Labrador School Board was established 1 January 1997 under the *Schools Act, 1997*. The Board was created from the operations of three other boards - Labrador West Integrated, Labrador East Integrated and the Labrador Roman Catholic School Board, and one school operated by the Pentecostal Assemblies Board of Education. In total 22 schools with 5,983 students, as at 30 June 1996, were combined to create the Labrador School Board. For the 2002-03 school year the Board provided an educational program to 4,970 students in 19 schools located throughout Labrador as shown in Figure 1.

Figure 1

Labrador School Board
Schools and Enrolment
September 2002 - June 2003

Communities	Location	Schools	Students	Teachers
 Nain Natuashish Hopedale Makkovik Postville Rigolet North West River Sheshatshui Cartwright Happy Valley/ Goose Bay Mud Lake Black Tickle Labrador City Wabush	Labrador City/ Wabush	4	1,598	104
	Happy Valley - Goose Bay	4	1,661	108
	North West River	1	125	13
	Sheshatshui	1	374	37
	Mud Lake	1	9	2
	Nain	1	366	36
	Natuashish	1	260	19
	Hopedale	1	200	19
	Postville	1	56	7
	Makkovik	1	102	11
	Rigolet	1	64	8
	Cartwright	1	109	12
	Black Tickle	1	46	6
	Total	19	4,970	382

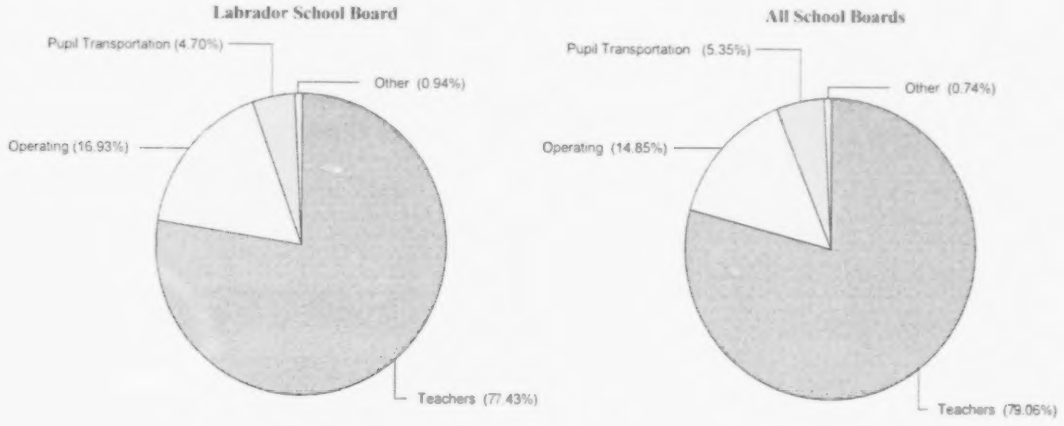
Source: Education Statistics 2002-03 and the Board's web site

2.10 Labrador School District

For the year ended 30 June 2002 the Board received $31.9 million in grants from the Province. These grants included $24.7 million for teachers' salaries, $5.4 million for Board operations, $1.5 million for pupil transportation and $0.3 million for other purposes. Figure 2 shows the distribution of the grants to the Board compared to the distribution for all boards.

Figure 2

Labrador School Board
Provincial Grants
For the Year Ended 30 June 2002



$31.9 Million

$510.4 Million

Scope and Objectives

We completed our review of the Labrador School Board in March 2003. Our review covered the period July 2000 to December 2002. The objectives of our review were to:

- review the financial position and operating results of the Board;
- determine whether controls, systems, policies and procedures in the acquisition of goods and services are adequate and comply with Board policies and the *Public Tender Act* and Regulations; and
- determine whether capital assets are adequately monitored and safeguarded.

2.10 Labrador School District

Conclusions

Financial position and operating results

The Board provides the Department of Education with a balanced budget each year as required by the *Schools Act, 1997*, and also provides a forecast which shows the Board's most accurate projection of expected operating results. These forecasts always show a projected deficit; however, the Department of Education does not challenge the differences in operating results between the balanced budget and the forecasted deficit. The Board does not always operate within its balanced budget as evidenced by the fact that the Board has incurred operating deficits in four of the six fiscal years since it was created. The Board has never received the prior approval of the Minister of Education to incur these deficits as required by the *Schools Act, 1997*.

As at 30 June 2002, the Board had an accumulated deficit of $6.5 million, including $5.5 million in accrued severance pay and had a $1.0 million bank loan. The Board did not receive the approval of the Minister of Education prior to incurring this $1.0 million debt as required by the *Schools Act, 1997*.

The Board has borrowed approximately $71,000 to purchase two vehicles without obtaining the prior approval of the Minister of Education as required by the *Schools Act, 1997*.

Controls over expenditures

The Board is not complying with the *Public Tender Act*. Thirty-two purchases totalling $835,647 were made without the required public tender call.

The Board has no documented policies relating to either the acquisition of goods and services or other expenditures such as travel. We found that existing controls in this area were not adequate. For example:

- Although the Board has purchase orders, they were not always used. When purchase orders were used, they were not always complete, they were not always accurate and the approval was often provided by the person initiating the purchase.
- Invoices were not always stamped as paid which would serve as a control to prevent duplicate payments. We identified two duplicate payments totalling $722.

- Amounts charged on invoices were not always checked to quoted prices before payment. We found a number of instances relating to fuel costs, janitorial services and fire alarm inspection services where the amount charged and paid was different from the contract amount. We also found an instance where the Board paid an insurance premium for a vehicle that it did not own.

- Travel claims were not always approved by the next level of management and did not always include all of the necessary information to support meal and entertainment expenses. We identified a duplicate payment of $950 relating to employee travel.

- Officials could not demonstrate whether all amounts paid relating to the use of Board credit cards were for Board business. For example, some statement balances were paid without supporting documentation for airfare and hotel charges, in some cases meals, telephone charges and entertainment expenses were made without any explanation of the purpose, and in some instances personal expenses were paid by the Board. There is no supervisory approval of credit card expenses. Accounting staff pay the balance of credit cards as due.

Capital assets

The Board has no documented policies relating to capital assets, which at 30 June 2002 amounted to approximately $42 million. Controls over capital assets were not adequate in that there was no capital asset ledger and assets were not tagged or periodically accounted for.

Findings and Recommendations

Financial Position and Operating Results

The Board was established on 1 January 1997 to consolidate the operations of three former boards and one school operated by the Pentecostal Assemblies Board of Education. At that time, the former boards had an operating deficit of $0.6 million. Since being established in 1997, the Board has incurred operating deficits in four of six fiscal years. As at 30 June 2002, the Board had an accumulated deficit of $6.5 million, including $5.5 million in accrued severance pay and had a $1.0 million bank loan. Figure 3 provides a summary of the Board's accumulated deficit.

2.10 Labrador School District

Figure 3

Labrador School Board
Accumulated Deficit
For the Years Ended 30 June
($ Millions)

	6 Months to 31 December 1996	6 Months to 30 June 1997	1998	1999	2000	2001	2002
Accumulated deficit, beginning of period	(0.6)	(0.6)	(5.2)	(4.9)	(5.0)	(5.9)	(6.5)
Annual deficit	0.0	(0.4)	0.0	0.0	(0.9)	(1.0)	(0.1)
Adjustments							
Teachers' severance		(4.3)	0.4	(0.1)			
School bus funding		(0.1)				0.2	0.1
Retroactive pay			(0.1)				
Accounts payable write-off		0.2					
Grant						0.2	
Total accumulated deficit, end of period	(0.6)	(5.2)	(4.9)	(5.0)	(5.9)	(6.5)	(6.5)

Source:Audited financial statements
Note: Amounts for the six months ended 31 December 1996 consist of information from the former school boards

From 1996 to 2002 total provincial grants to all school boards has decreased by 1.2% and the total expenditures of all boards has decreased by 0.8%. In contrast, provincial funding for the Labrador Board has increased 10.8% ($3.1 million) and total expenditures have increased by 6.9% ($2.3 million). Figure 4 shows the changes in the various grants and expenditure categories for the Board.

2.10 Labrador School District

Figure 4

Labrador School Board
Revenues and Expenditures
30 June
($ Millions)

	1996	1997	1998	1999	2000	2001	2002
Revenues							
Provincial grants							
Teachers	22.5	20.5	22.2	19.4	22.9	25.7	24.7
Operating	5.0	4.8	4.7	4.7	5.3	5.2	5.4
Pupil transportation	1.0	1.3	1.7	1.4	1.6	1.6	1.5
Other	0.3	0.5	0.5	0.3	0.2	0.3	0.3
	28.8	27.1	29.1	25.8	30.0	32.8	31.9
Federal grants	2.0	2.0	1.9	1.7	1.8	1.8	2.0
Ancillary	0.6	0.5	0.6	0.6	0.5	0.2	0.2
Miscellaneous	1.8	1.7	1.7	1.6	1.7	1.5	1.5
	33.2	31.3	33.3	29.7	34.0	36.3	35.6
Expenditures							
Administration	2.0	1.9	1.4	1.2	1.3	1.4	1.5
Instruction	27.0	24.8	26.6	23.4	27.1	29.8	28.5
Operations and maintenance	3.0	3.1	3.4	3.2	3.6	3.8	3.8
Pupil transportation	1.2	1.5	1.7	1.6	1.8	1.8	1.6
Ancillary services	0.2	0.4	0.1	0.2	0.3	0.2	0.3
	33.4	31.7	33.2	29.6	34.1	37.0	35.7
Operating surplus (deficit)	(0.2)	(0.4)	0.1	0.1	(0.1)	(0.7)	(0.1)
Transfer to/(from) Capital	(0.2)		0.1	0.1	0.0	0.1	0.1
Other					0.8	0.2	(0.1)
Total surplus (deficit)	0.0	(0.4)	0.0	0.0	(0.9)	(1.0)	(0.1)

Source: Audited financial statements

Note: For the year ended 30 June 1996 information includes the combined financial statements of the former boards and for the year ended 30 June 1997 information includes the former boards to 31 December 1996 and the current Board from 1 January 1997 to 30 June 1997.

2.10 Labrador School District

Our review of the financial position and operating results of the Board identified the following:

- Up to 1999-00, the Board received $331,000 in annual rental revenue for a school no longer required for school purposes. In 1999-00, ownership of the school building was disputed and the revenue since that date has been held in trust pending a court resolution of the dispute.

- The Board provides the Department of Education with a balanced budget each year as required by the *Schools Act, 1997,* and also provides a forecast which shows the Board's most accurate projection of expected operating results. These forecasts always show a projected deficit. For example, while the Board provided the Department with a balanced budget for the year ended 30 June 2001, it also provided a forecast which indicated a $600,000 deficit. The actual deficit for the year ended 30 June 2001 was $700,000.

  The Department of Education does not challenge the differences in operating results between the balanced budget and the forecasted deficit. The Board does not always operate within its balanced budget as evidenced by the fact that the Board has incurred operating deficits in four of the six fiscal years since it was created. The Board has never received the prior approval of the Minister of Education to incur these deficits as required by the *Schools Act, 1997.*

  The Board was aware of the requirements of the *Schools Act, 1997* as evidenced by the following excerpt from the Board minutes.

  > *"It was the consensus of the Board members that not withstanding the requirements of Bill 8* (Schools Act, 1997), *the Board would continue to service the District as in the past even if this means being in contravention of Bill 8 and incurring an operating deficit, while continuing to lobby government for additional funding."*

- Although the Board is entitled to a rebate of HST on certain purchases, we identified three instances where this rebate totalling $1,800 was not claimed.

- The Board purchased two vehicles using financial credit companies without the prior approval of the Minister of Education for such borrowing as required by the *Schools Act, 1997*. These vehicles cost approximately $71,000 resulting in monthly instalments of $1,500.

Purchasing

For the year ended 30 June 2002 the Board spent approximately $4.8 million (2001 - $5.3 million) for the purchase of goods and services. Our review included an examination of 348 purchase transactions for the period 1 July 2000 to 31 December 2002 and discussions with Board staff. Our review identified instances of non-compliance with the *Public Tender Act* and weaknesses in controls.

1. Compliance with the *Public Tender Act*

The *Public Tender Act* requires the Board to invite tenders where the cost of goods and services is more than $10,000 or public work is more than $20,000. The *Act* provides exceptions where tenders, for amounts in excess of these threshold amounts, may not be required to be invited and in these cases the Minister of Works, Services and Transportation must be informed, who in turn will table a report in the House of Assembly.

Of the 348 purchase transactions that were selected for review, 60 were greater than $10,000. Our review of these purchases to determine compliance with the *Public Tender Act* identified the following:

- 32 purchases totalling $835,647 were not publicly tendered and, as a result, the Board contravened the *Act* in each instance. Information on these 32 purchases have been provided in Appendix I to this report.

- 22 purchases totalling $289,900 were for public works and did not exceed the $20,000 requiring a tender.

- 5 purchases totalling $103,200 were tendered and the contract was awarded in accordance with the *Act*.

- 1 purchase for $56,200 was not tendered; however, it was indicated that this was an emergency purchase and a Form B exception report was filed with the Minister of Works, Services and Transportation as required by the *Act*.

Other issues identified relating to the 32 purchases which were not publicly tendered are as follows:

- In July 2000, the Board purchased a photocopier and accessories for $10,394 plus taxes. The purchase order approving the purchase was only for $4,295 including freight plus taxes. The invoice of $10,394 included charges for a stapler, sorter and other photocopier accessories that were not included on the purchase order.

- In August 2002, the Board purchased furniture costing $12,444. This furniture was purchased with two separate purchase orders, each for less than the $10,000 threshold in the *Public Tender Act* which requires a public tender. These purchases from the same supplier on the same day should have been considered one purchase and therefore publicly tendered. Purchases should not be split as a means to avoid the requirement for public tenders.

- An 11 month contract worth $52,700 expiring in June 2001 for janitorial services was extended for another year without a public tender call. After the original tender was awarded there was an addition to the school and the company quoted and was paid an additional $978 (HST included) per month commencing in September 2000 for janitorial services relating to the school addition. In July 2001 the contract was extended based on a quote of $47,659 (+ HST) from the contractor. In this regard we note the following:

    - Correspondence from the Maintenance Manager to the company approving a quote on 18 July 2001 states "*...your Janitorial Service Contract for Peenamin McKenzie School has been extended for the school year 2001-2002 as per your quotation dated 16 July 2001*". However, Board officials could not provide a copy of this quote.

    - In addition to the quote of $47,659, the company continued to be paid the $978 for the school addition. Since Board officials could not provide specifications relating to the quote, we were unable to determine whether the addition to the school in 2000 was already included in the quote of $47,659 and whether the additional payment of $978 was appropriate.

2. Professional Services

The Board incurs expenditures related to professional services such as lawyers, computer consultants, and engineers. It is important that the selection, monitoring and evaluation of these services be carried out on a consistent and fair manner. Our review of this area indicated the following:

- The Board does not have any guidelines related to the acquisition of professional services.
- The Board entered into three information technology contracts totalling approximately $126,300 with one company relating to information technology development services in several areas. There was no documentation on file at the Board to demonstrate how this company was selected and whether the best price was obtained.

3. Controls over Purchasing

An effective system of control over purchasing would include the use of purchase orders, proper levels of review and approval, adequate documentation, and an adequate accounting system. Our review indicated that the Board has no documented policies relating to either the acquisition of goods and services or other expenditures. Our review of 348 purchase transactions indicated that the Board's existing system of control over purchasing was inadequate as evidenced by the following weaknesses:

- In 83 purchase transactions, no purchase orders were prepared. As a result, the Board is paying invoices without being able to match the payment to an authorized purchase order as evidence of an authorized purchase and to reduce the risk of duplicate payment. For example, our review identified two instances where the Board made duplicate payments totalling $722 that may have been prevented if purchase orders had been completed and matched to the invoice. The Board has since recovered $527 relating to one of the duplicate payments.

- In the 265 purchase transactions for which purchase orders were prepared, we found the following:
    - 71 of the purchase orders were not completed properly. We found instances where purchase orders did not always include complete information or included incorrect information such as date, quantity, price, details of purchase, the name of the person requesting the purchase and signature for receipt of goods. As a result, the Board is paying invoices without being able to match the payment to a properly completed purchase order as evidence of an authorized purchase and to reduce the risk of duplicate payment. For example, we identified an instance where, although a purchase order was prepared, it did not have either the quantity or the price recorded. In this case a quote on file indicated that 15 thermo units at $779 per unit were ordered; however, the invoice paid by the Board was for 11 units at $1,063 per unit.
    - 52 of the purchase orders were approved by the person requesting the purchase. As a result, there is a weakness in controls that could result in unauthorized purchases.
    - 3 of the purchase orders were prepared subsequent to the receipt of the invoice. As a result, the Board cannot ensure that invoices represent authorized purchases and that prices and quantities are accurate.
- 260 of 348 invoices reviewed were not marked as having been paid. Marking invoices as paid would serve to prevent an invoice from being paid twice.
- The Board is not adequately monitoring its leases in that not all lease documents were on file to allow comparison to payment amounts. For example, Board staff were unable to either produce documents or readily explain what a monthly payment of $1,027 being deducted from the Board's bank account related to. As a result of our inquiries, Board staff determined that the payment related to leased equipment with a 36 month term commencing April 2001.

2.10 Labrador School District

- Invoices related to the purchase of heating oil and gasoline totalling approximately $500,000 per year are not being adequately verified as there are no procedures to ensure that the supplier is charging the price as quoted under the Province's standing offer agreement. As a result, errors in payments can occur. For example, the cost per litre of diesel fuel on an invoice in January 2003 was $0.0576 per litre more than the standing offer which resulted in an overpayment of $212.50. In another instance in September 2001, the cost paid per litre of gasoline and stove oil resulted in an overpayment of $33.85. In four instances in November 2000, the Board was undercharged.

- A company was awarded the tender for the inspection of fire alarms for the period July 1998 to July 2001. The same company was successful in its bid to provide the same service for the period September 2001 to August 2004. In June 2002 the company billed the Board and was paid in August 2002 the annual rate for the original tender rather than the new rate for September 2001 to August 2004. As a result the Board underpaid the contractor $3,128. This indicates contract payments are not being adequately monitored.

- On two occasions the Board paid duplicate airfares for the same individual to attend a function. While it appears that the employee changed the travel times, there is a lack of documentation on when and how the unused ticket was used.

- In November 2001 the Board paid insurance premiums of $137 to add a new vehicle to the insurance coverage; however, staff indicated that the Board did not own such a vehicle nor is there evidence such a vehicle was purchased.

- For the 2001-02 fiscal year a contractor billed the Board for janitorial services and was paid for the full 12 months for two schools and not the 11 months per the contract. The overpayment occurred when an invoice for July 2001 in the amount of $7,527 including HST for two schools was paid. Board maintenance staff indicated that additional cleaning was performed by the contractor; however, the invoice did not indicate this and no purchase order was issued to approve the additional amount.

- There is no monitoring of fuel purchases and maintenance costs for each of the Board's 7 service vehicles and 36 buses. On average the Board purchases approximately $160,000 a year in fuel for buses and $10,000 a year in fuel for maintenance vehicles. In 2001, fuel purchases for buses exceeded the average by approximately $50,000 yet no explanations were provided

4. Travel

The Labrador School Board covers a vast geographical area from Black Tickle in the south to Nain in the north and to Labrador City in the west. Transportation throughout this region is mostly by air, making travel costs a very significant expense. Travel costs for the year ended 30 June 2002 totalled $479,824. Our review of travel identified the following:

- There are no policies and procedures for the authorization and documentation of travel and the approval of related expense claims.

- Travel details on 16 of 28 travel claims selected for review were not complete. Time of departure and return were not always identified and, as a result, we could not determine the appropriateness of all meal claims. In addition, 24 of 28 claims were not approved by the next level of management.

- Controls over payments for travel require improvement. Periodically, Board staff travel on behalf of other groups, such as the Department of Education, and are reimbursed for travel costs by these groups. The Board, in order to speed up the claim process, also reimburses the employee for the travel and requires the employee to repay the Board once a claim is received from the other entity. However, the requirement to repay the amount is not always recorded as an accounts receivable from the employee and there are no procedures to identify situations where another entity reimburses the employee. Our review identified one instance where an employee was reimbursed twice for the same travel and did not reimburse the Board. Since our review the Board has been reimbursed $950 related to this duplicate payment.

- Entertainment expenses were not adequately documented to indicate the nature of the entertainment and the persons who attended. Without this information it is difficult to determine whether such expenses were for Board business. For example, an invoice totalling $327 paid 29 June 2001, indicated the purchase of 22 meals; however, there is no indication on the invoice or purchase order of the purpose or attendees as required by government's entertainment policy.

- Senior staff professional development was not approved by the Board. Employee contracts provide senior staff with the opportunity to take part in professional development activities as approved by the Board. For example, two senior managers of the Board were reimbursed for the costs of professional development courses that the Board did not approve. These courses cost a total of $3,400 relating to travel costs and registration fees.

- Controls over the Board's three credit cards were not adequate. Credit card statement balances are sometimes paid by accounting staff without supporting documentation such as airplane tickets and hotel bills, and in some cases for meals, telephone calls and entertainment expenses were made without any explanation of the purpose. Furthermore, instead of original documentation to support an expense, there were instances where credit card slips or photocopies were used without adequate explanation. We also found that personal expenses, such as membership in an air miles reward program were charged to the card and paid by the Board. As a result, there are instances where there was neither approval of expenditures incurred through the card nor evidence that all expenses were for Board business.

Capital Assets

Capital assets represent a significant investment by the Board and as at 30 June 2002 the Board had assets costing $42.4 million as outlined in Figure 5.

2.10 Labrador School District

Figure 5

Labrador School Board
Capital Assets
30 June 2002
($ Millions)

Description	2001	2002
Land	$ 0.2	$ 0.2
Buildings	37.4	38.0
Furniture and equipment	2.8	2.8
Vehicles	1.4	1.4
	$ 41.8	$ 42.4

Source: Audited Financial Statements

Given the significant investment in capital assets, we would expect the Board to have developed controls and procedures for their safeguarding and control. Our review of this area indicated that controls over capital assets were not adequate as follows:

- There is no capital asset ledger and assets are not tagged or listed once purchased.
- The Board has no policies covering the purchasing, safeguarding and monitoring the use of capital assets.
- Log books are not maintained to monitor usage of the Board's seven maintenance vehicles.

Recommendations

The Board should:

- *comply with the requirements of the* School's Act, 1997;
- *comply with the requirements of the* Public Tender Act;

- *strengthen financial controls relating to purchasing, travel and entertainment, and professional services; and*
- *strengthen controls over capital assets.*

Board's Response

The Labrador School Board (LSB) was formed in January 1997 as a result of the educational reform process that reduced the number of school boards in the province to eleven. It is both a culturally and geographically diverse district that encompasses a landmass of more than 280,000 km^2 *(bigger than the British Isles!). The Board provides educational services to 5000 students in 18 schools which are located in 3 distinct regions: (1)* **Coastal Labrador** *- which has 9 schools in 8 communities spanning from Nain in the north to Black Tickle in the south. These communities are small isolated, fly-in, mostly aboriginal settlements with a total student population of 1200 students. In January 2003, the school in the new community of Natuashish became the responsibility of the Federal Government, but the LSB is still responsible for all aspects of instruction including the K-12 program as well as hiring and managing the teaching staff; (2)* **Western Labrador** *- which now has 3 schools in two communities with a total student enrolment of 1600; and (3)* **Central Labrador** *- which has 6 schools in 4 communities with a total student population of 2200.*

Board personnel have constantly struggled to cope with the many challenges of operating within this immense landmass to ensure that quality educational services are delivered to the 5000 students who are scattered throughout the jurisdiction. More than half of the Board's students and teachers are located in fly-in communities that are remote to Happy Valley-Goose Bay in Central Labrador. "Travel Costs" for the LSB are exorbitantly high, to the point where the Board struggles to operate within the travel budget provided by the Department of Education (DOE). These huge travel costs coupled with the substantial financial drain associated with the "provision of Teacher Housing" along the coast of Labrador, are the major contributing factors to the Board's financial difficulties. ***Housing costs alone account for more than 55% of the Board's total accumulated deficit, a non-mandated expenditure area that no other school jurisdiction has responsibilities for!*** *The extra resources (time, energy, materials and staff) that are continually zapped from the organization because of these two unique dimensions have indeed caused the LSB to sometimes struggle with some of its procedural issues.*

2.10 Labrador School District

The purpose of this submission is to provide a context for some of the many issues raised in the October, 2003 Draft Management Report of the Office of the Auditor General for the fiscal years 2000-2001, 2001-2002 and to the end of December 2002. The LSB certainly recognizes the important role of the Auditor General's Office and has already adjusted many of its procedures as a result of the feedback our staff obtained while working closely with the field staff from the Auditor's Office as they prepared the preliminary details for the Management Report. However, some areas identified through this review (e.g. Capital Assets Ledger) will be very difficult to address simply because of the limited staff the Board has available to support the system in the Labrador context. Educational delivery in Labrador presents many unique challenges (geography, cultural and aboriginal dimensions, issues around teacher housing, etc.) that are not present elsewhere in the province, and these challenges add to the Board's difficulty in ensuring total compliance with Government legislation and policy. The Board's new mandate and direction is towards compliance in attempting to achieve a balanced budget and a debt free status. On that note, for the first time in four years, a surplus budget was recently approved for the 2003-2004 school year, and in following our newly developed strategic plan (Labrador Directions 2003-2006) and the four (4) year Deficit Reduction Plan submitted to the DOE on December 12, 2002, we are forecasting small annual surpluses into the future. These surpluses will be used to eliminate the Board's accumulated deficit as specified in the Deficit Reduction Plan. Despite the many challenges we face on a daily basis, the LSB is very confident that a reassessment of our organization by the Auditor General's Office in the near future will reveal a significant improvement in our overall operations.

The LSB is always open to feedback and recognizes the important role of the Auditor General's Office in this regard. The Draft Management Report identifies a number of areas that need increased attention, and the Board has already initiated a number of important changes in its operations and is endeavouring to address as many of the other identified areas as possible. However, the Board believes that many of the issues raised through the review are significantly related to the complexities and uniqueness of educational delivery in the Labrador context, and with the resources presently available to the Board, it will be difficult to effectively address all of them.

A significant theme in this response has been around the lack of office staff to meet all the demands being placed on them. The Board presently does not have the financial resources to hire extra office staff to reduce/eliminate the kinds of processing errors that have occurred from time to time. The cost to the Board for the errors is far less than what the yearly cost of extra personnel would have been, and while we would like to be in a financial position to hire the extra personnel, such a move is not financially feasible at the present time. Recognizing the importance of minimizing errors, we believe that the procedural changes we have made since the review by the Auditor General's field staff will go a long way in error reduction in the future.

The LSB recognizes its deficiencies in the area of policies and procedures, not only as they relate to the purchasing function but to all areas of operations. As stated in a previous section of this submission, the Board is now working with the government's "Achieving Excellence 2000" framework and has prepared and approved a new Strategic Plan (entitled Labrador Directions 2003-2006) with a significant focus on Policies-Governance, Operational and School. Once this work is completed, our organization will be very sound from this perspective and this will provide a solid platform from which to more effectively and efficiently conduct the business of supporting student learning while ensuring we are in compliance with the Schools Act, 1997, *the* Public Tender Act *and other government policies and protocols.*

The LSB believes that it is unfortunate that the issues raised in the report casts such a negative light on our organization, especially given the significant gains we have made since the 2000-2001 fiscal year. We are very confident as a Board that a future review of our organization will highlight the tremendous and impressive improvements we know we will achieve in the months and years ahead.

APPENDIX I
LABRADOR SCHOOL BOARD
NON -COMPLIANCE WITH THE *PUBLIC TENDER ACT*

Date	Invoice	Item Purchased	Net Amount
2000-01			
July 2000	2331	Supply & install zone valves at a school	$ 60,494
July 5, 2000	5180	Canon copier for Goose High	22,491
July 5, 2000	5181	Server	23,550
July 5, 2002	5182	Canon Copier for Curriculum Centre	10,394
July 5, 2000	5179	Canon copier for Board office	22,491
August 2000	PO14639 PO14658	Furniture for teachers' housing in Nain	13,001
August 25, 2000	2331	Three laptops, cases & second battery	11,291
August 31, 2000	N/A	1991 Special Needs School Bus	21,800
September 18, 2000	1016	Music instruments	28,780
September 21, 2000	57157	Charter flight for sports meet	12,112
September 25, 2000	57202	Charter flight for conference	14,300
October 2, 2000	13293	Purchase of printed copies in native languages	19,238
October 16, 2000	174	Supply & install fire detection system at one school	25,145
December 6, 2000	N/A	2001 Chevrolet Pick-up	32,021
		Total 2000-01	**$ 317,108**
2001-02			
June 2001	27516040 27516020	7 Computers and 1 laptop	$ 10,978
July 9, 2001	27806346	Eight Computers	14,339
July 4, 2001	991689	Lease of 34 Computers and 1 printer over 3 years	40,796
July 16, 2001	7292	Remove, supply and install flooring at one school	21,935
August 2001 - June 2002	2422	Janitorial Services one year contract extension	47,659
August 6, 2001	29219	Janitorial Supplies	12,623
September 4-10, 2001	10613, 10628 10708	Three used photocopiers	24,500

APPENDIX I (cont.)

Date	Invoice	Item Purchased	Net Amount
		2000-01	
September 21, 2001	1349	Supply & install intercom system and upgrade clock at one school	23,825
October 4, 2001	63225	Charter flight for sports meet	10,600
October 4, 2001	10476, 10477 10478	Furniture for teachers' housing at Hopedale	20,372
October 17, 2001	41905-00	Six floor scrubbers and supplies	30,397
March 15, 2002	EOL4307	22 Computer Monitors and 21 workstations	12,838
		Total 2002-03	**$ 270,862**
		2002-03	
July 15, 2002	2136778-1	Annual Netware and Groupwise licenses	$ 19,661
August 8, 2002	213109 213115	Furniture for teachers' housing in two communities	12,444
August 15, 2002	N/A	House in Makkovik	55,127
October 7, 2002	235653	Charter flight for sports meet	14,900
October 7, 2002	3532	1999 Ford pick-up	13,054
October 2002	748714	Lease/purchase of 6 Photocopiers over 5 years commencing 1997	132,491
		Total 2002-03	**$ 247,677**
		Total Non-Tenders	**$ 835,647**

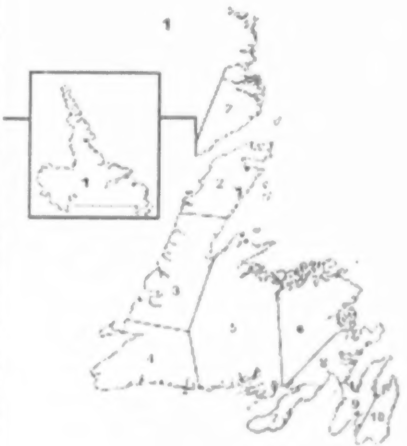
2.11 Monitoring School Boards

Introduction

In 1996 the school system in the Province was reorganized with the dissolution of 27 church run school boards and the creation of 10 new English language school boards and one French language school board. The 27 school boards continued to exist and administer the schools within their jurisdiction until their dissolution on 31 December 1996. As at 31 December 1996, there were approximately 445 schools in the Province with a total enrolment of 110,450 students. Figure 1 provides a profile of the 11 school boards for the 2002-03 school year. As the Figure indicates, the number of schools and student enrolment have declined by 29% and 24% respectively.

Figure 1

**Department of Education
School District Profile
2002-03**



District	School District	Number of	
		Schools	Students
1	Labrador	19	4,970
2	Northern Peninsula/Labrador South	29	3,073
3	Corner Brook/Deer Lake/St. Barbe	29	7,511
4	Cormack Trail	27	5,367
5	Baie Verte/Central/Connaigre	46	8,007
6	Lewisporte/Gander	33	7,756
7	Burin Peninsula	17	3,904
8	Vista	15	4,081
9	Avalon West	32	9,571
10	Avalon East	65	29,798
11	Conseil scolaire francophone	5	230
Total		317	84,268

Source: Department of Education's *Education Statistics 2002-03*

As part of our audit work, we continue to monitor the financial position and annual operating results of the 11 school boards.

Conclusions

The combined financial position of the 11 school boards at 30 June 2003 shows a total accumulated deficit of $134.899 million, a 7% increase from the $126.467 million reported at 30 June 2002. All 11 boards reported increases in accumulated deficits for 2003. These accumulated deficits will eventually have to be funded by Government.

Provincial funding has increased from $528.188 million in 2002 to $554.381 million in 2003 and during this period, annual operating deficits have increased from $2.048 million in 2002 to $7.247 million in 2003. Although 10 boards reported an annual operating deficit during the year, only District 7 had a deficit which was less than that reported in 2002.

At 30 June 2003, 6 of the 11 boards were in contravention of the *Schools Act, 1997* in that they incurred operating deficits, other than related to the accrual of severance and leave, without the approval of the Minister.

Observations

Financial Position

Our review of the school boards' financial position in 2003 included an assessment of the annual operating results and the financial position of the 11 boards for the two years to 30 June 2003.

Information on the financial position of the 11 boards is outlined in Figure 2. This Figure indicates that the combined financial position of the 11 school boards continued to deteriorate. The total accumulated deficit for the 11 boards has increased from $126.467 million in 2002 to $134.899 million in 2003. All 11 boards reported increases in accumulated deficits for 2003. These accumulated deficits will eventually have to be funded by Government.

Figure 2

Department of Education
School Districts
Summary of Financial Position
30 June
($ 000's)

	District											Total	
	1	2	3	4	5	6	7	8	9	10	11	2003	2002
Current Assets													
Cash and investments	-	-	-	614	-	32	-	-	437	1,877	90	3,050	1,976
Accounts receivable	2,187	432	767	194	426	1,449	431	524	878	4,094	123	11,505	10,231
Summer pay receivable	3,590	-	4,856	3,764	-	-	-	-	-	17,275	254	29,739	27,575
Other assets	22	86	15	49	122	153	182	24	199	386	16	1,254	1,208
Total current assets	5,799	518	5,638	4,621	548	1,634	613	548	1,514	23,632	483	45,548	40,990
Trust funds	-	-	-	-	272	-	-	-	-	-	-	272	-
Capital assets	42,475	37,962	58,766	69,110	73,167	83,493	39,096	47,105	91,149	110,038	581	652,942	644,726
Total assets	48,274	38,480	64,404	73,731	73,987	85,127	39,709	47,653	92,663	133,670	1,064	698,762	685,716
Current Liabilities													
Bank indebtedness	790	336	1,428	-	86	-	285	386	-	-	-	3,311	3,835
Accounts payable	731	150	344	352	792	1,127	379	120	1,188	2,383	212	7,778	6,767
Summer pay liability	3,590	2,527	4,856	3,764	5,499	5,167	2,717	2,845	6,216	17,275	254	54,710	51,299
Deferred revenue	301	180	92	111	61	72	16	20	292	107	5	1,257	2,557
Current maturities	220	31	187	40	220	189	456	110	154	648	-	2,255	1,646
Total current liabilities	5,632	3,224	6,907	4,267	6,658	6,555	3,853	3,481	7,850	20,413	471	69,311	66,104
Trust funds liability	-	-	-	-	274	-	-	-	-	-	-	274	-
Long-term debt	1,681	260	1,698	-	1,374	2,521	2,472	604	1,222	4,429	-	16,261	11,902
Severance pay	5,912	4,939	9,814	7,812	10,953	11,039	6,235	5,389	12,036	32,091	171	106,391	100,509
Total liabilities	13,225	8,423	18,419	12,079	19,259	20,115	12,560	9,474	21,108	56,933	642	192,237	178,515
Equity													
Investment	41,836	37,670	56,881	69,162	71,554	81,111	37,294	46,369	89,774	109,193	580	641,424	633,668
Deficit	(6,787)	(7,613)	(10,896)	(7,510)	(16,826)	(16,099)	(10,145)	(8,190)	(18,219)	(32,456)	(158)	(134,899)	(126,467)
Total equity	35,049	30,057	45,985	61,652	54,728	65,012	27,149	38,179	71,555	76,737	422	506,525	507,201
Total liabilities and equity	48,274	38,480	64,404	73,731	73,987	85,127	39,709	47,653	92,663	133,670	1,064	698,762	685,716

Source: 30 June 2003 audited financial statements except draft financial statements for District # 8

As Figure 2 shows, the 11 school boards had accumulated deficits totalling $134.899 million as at 30 June 2003. This is comprised of $131.362 million in accrued severance pay and leave, and a net accumulated operating deficit of $3.537 million. A summary of these amounts is provided in Figure 3.

Figure 3

Department of Education
School Districts
Information on Accumulated Deficits
30 June
($ 000's)

District	2003			2002		
	Total	Leave/ Severance	Operating	Total	Leave/ Severance	Operating
1	$ (6,787)	$ (5,912)	$ (875)	$ (6,530)	$ (5,491)	$ (1,039)
2	(7,613)	(7,466)	(147)	(7,376)	(7,178)	(198)
3	(10,896)	(9,814)	(1,082)	(10,084)	(9,250)	(834)
4	(7,510)	(7,812)	302	(7,308)	(7,398)	90
5	(16,826)	(16,452)	(374)	(15,355)	(15,891)	536
6	(16,099)	(16,206)	107	(15,036)	(15,337)	301
7	(10,145)	(8,952)	(1,193)	(9,923)	(8,614)	(1,309)
8	(8,190)	(8,234)	44	(7,683)	(7,716)	33
9	(18,219)	(18,252)	33	(17,122)	(17,353)	231
10	(32,456)	(32,091)	(365)	(29,962)	(29,868)	(94)
11	(158)	(171)	13	(88)	(137)	49
Total	**$ (134,899)**	**$ (131,362)**	**$ (3,537)**	**$ (126,467)**	**$ (124,233)**	**$ (2,234)**

Source: 30 June 2003 audited financial statements except draft financial statements for District # 8

Operating Results

Figure 4 outlines the annual operating results for the 11 school boards for the two years to 30 June 2003.

Figure 4

Department of Education
School Districts
Comparison of Financial Operations
Years Ended 30 June
($ 000's)

	District											Total	
	1	2	3	4	5	6	7	8	9	10	11	2003	2002
Revenue													
Provincial grants													
Teachers	28,609	20,267	38,428	33,700	44,919	41,835	18,996	22,930	51,108	138,664	2,079	441,535	420,963
Regular operating	5,912	4,441	7,459	5,880	8,019	7,840	3,751	4,389	8,465	22,723	799	79,678	76,079
Pupil transportation	1,687	1,418	2,741	2,061	3,183	4,360	2,337	1,824	4,013	6,707	200	30,531	28,655
Other Provincial grants	-	7	208	178	337	605	199	141	862	-	100	2,637	2,491
Total Provincial grants	36,208	26,133	48,836	41,819	56,458	54,640	25,283	29,284	64,448	168,094	3,178	554,381	528,188
Federal grants	2,440	7	36	211	8	146	132	29	276	-	1,008	4,293	3,858
Ancillary services	195	11	60	12	69	74	99	-	-	38	25	583	445
Miscellaneous revenue	1,518	341	556	359	468	393	190	29	458	1,550	25	5,887	4,962
Total revenue	40,361	26,492	49,488	42,401	57,003	55,253	25,704	29,342	65,182	169,682	4,236	565,144	537,453
Expenditure													
Administration	1,478	1,005	1,726	1,134	1,571	1,425	821	1,021	1,337	2,563	597	14,678	14,733
Instructional	32,743	21,408	40,465	35,591	47,511	44,542	20,064	24,199	54,455	147,108	2,990	471,076	443,958
Operations and maintenance	4,103	2,987	5,237	4,156	5,450	5,723	2,360	2,517	5,290	15,901	445	54,169	50,520
Pupil transportation	1,998	1,461	2,796	2,062	3,331	4,576	2,417	1,794	4,015	6,740	201	31,391	29,292
Ancillary services	227	-	-	8	68	-	99	-	5	146	-	553	517
Miscellaneous	-	-	-	20	-	1	148	-	-	-	-	169	111
Debt repayment	6	9	53	1	1	14	70	46	97	58	-	355	370
Total expenditure	40,555	26,870	50,277	42,972	57,932	56,281	25,979	29,577	65,199	172,516	4,233	572,391	539,501
Excess of revenue over expenditure (expenditure over revenue)	(194)	(378)	(789)	(571)	(929)	(1,028)	(275)	(235)	(17)	(2,834)	3	(7,247)	(2,048)
Equity adjustments	282	-	-	201	131	-	58	-	42	58	-	772	51
Net transfer to capital	(345)	141	(23)	168	(673)	(35)	(5)	(272)	(1,122)	282	(73)	(1,957)	(1,178)
Decrease in equity	(257)	(237)	(812)	(202)	(1,471)	(1,063)	(222)	(507)	(1,097)	(2,494)	(70)	(8,432)	(3,175)

Source: 30 June 2003 audited financial statements except draft financial statements for District # 8

As Figure 4 shows, Provincial funding has increased from $528.188 million in 2002 to $554.381 million in 2003. During this period, annual operating deficits have increased from $2.048 million in 2002 to $7.247 million in 2003. Although 10 boards reported an annual operating deficit during the year, only District 7 had a deficit which was less than that reported in 2002.

Compliance with Legislation

During 2002-03, 6 of the 11 boards incurred operating deficits other than that related to the accrual of severance and leave. There was no approval given by the Minister to these 6 boards to incur a deficit as required by the *Schools Act, 1997*. As a result, these boards did not comply with the *Schools Act, 1997*.

In addition, the *Schools Act, 1997* requires each school board to submit its annual budget to the Minister at a date determined by the Minister. As of the date of our review in November 2003, the Department had received the required 2003-04 budgets from all of the 11 school boards. Only two budgets were received prior to the required date of 30 September 2003.

Compliance with Department of Education's Directive

The Department issued a directive to all school boards in August 2003 stating "*School Districts are required to record on their financial statements an accrued liability for summer pay for teachers. This transaction does not have a corresponding asset entry, e.g., accounts receivable....you are requested to post a prior period adjusting entry for the cost of summer pay liability as at June 30, 2002. The net result would be a reporting of teacher salary expenditure for the school year 2002/03.*"

The total summer pay liability was $54.7 million at 30 June 2003 and $51.3 million at 30 June 2002. Our review of the financial statements indicated that 6 of the 11 boards did not comply with the directive as required. For example, 5 of the boards recorded a corresponding accounts receivable while 1 board did not record the prior period amount as directed.

Department's Response

Compliance with Legislation

We concur with the reported accumulated deficit of school boards as at June 30, 2003. However, in our view, the deficit should be expressed as comprising of two elements: $131.362 million for accrued severance pay and unpaid leave and $3.537 million for the net accumulated operating deficit. Our position is that the net change in the accrued severance liability as at June 30, 2003 should not be included in the expression of the school boards' net operating deficit because this is not controllable by them. Hence, we suggest the separation of the change in the net deficit position such that two separate figures are noted in your comments.

I also note any provision of funds for the payment of the accrued severance liability for government-funded agencies is addressed through the annual budget process and we believe this is an important point.

We believe it is incorrect to suggest that the operating deficits, excluding accrued liabilities of school boards, will eventually have to be paid by government. The Department has made it explicitly clear to all school boards that government will not be absorbing operating deficits. The Department has insisted that boards reporting deficits prepare and submit to the Department, for review and Ministerial approval, a deficit reduction plan. The Department notes that three of the five boards in a deficit position have decreased their deficits over the previous final year.

We concur with your observations that boards have not been seeking Ministerial approval prior to incurring an operating deficit. We will continue to remind board officials of the legislative requirements and will closely monitor school boards' budgets to ensure compliance.

The Legislation requires that all boards submit an annual budget by a prescribed date for the Minister's review. We concur that several boards have not submitted their annual budget on a timely basis. In our next budget cycle, we will reiterate to school boards, the requirement of compliance with Legislation. It should be noted that regardless of when the budget submissions are received, the Department does not accept without question, an unbalanced budget, or one which is balanced with unreasonable expectations.

Compliance with Department of Education's Directive

Officials of the Department of Education have had detailed discussions with the Office of the Comptroller General on these specific matters: (1) the setting up of the summer pay liability as at June 30, 2003, (2) prior period adjustment for the year ended June 30, 2002 and (3) the recording by school boards of an offsetting account receivable. As a result of these deliberations, the Department issued a directive which you referred to in the draft management letter. We will continue to seek advice from the Comptroller General and work with our school boards to give clear direction before the next audits are performed.

2.11 Monitoring School Boards

2.12 Direct Equity Tax Credit Program

Introduction

In October 2000 the Province announced the establishment of two new venture capital investment programs to stimulate growth of small businesses. The Direct Equity Tax Credit Program and the Labour Sponsored Venture Capital Program were established as a result of recommendations made during public consultations held by the Cabinet Committee on Jobs and Growth in March 2000. The Direct Equity Tax Credit Program was established at the time of the announcement, however, the Labour Sponsored Venture Capital Program was not operational at the time of our review in May 2003 although it was originally expected to be operational in early 2001.

The Direct Equity Tax Credit Program was developed to encourage private investment in new or expanding small businesses as a means of creating new jobs and diversifying the economy throughout the Province. The Program provides a Provincial income tax credit ranging from 20% to 35% of the eligible investment to individuals who invest as shareholders in eligible small business activities. The maximum investment a business can receive through the Program is $700,000 and the maximum annual tax credit per investor is $50,000. Effective April 2003, non-arms length corporations are also permitted to invest as shareholders and receive a tax credit.

The Program is a small business initiative of the Department of Industry Trade and Rural Development; however, it is fully administered by the Department of Finance - Tax Administration division. The Program is governed by the *Direct Equity Tax Credit Regulations* of the *Income Tax Act, 2000*. Since the Program was implemented in October 2000, 38 applications have been approved and approximately $2.4 million has been raised by businesses as disclosed in Figure 1.

Figure 1

Direct Equity Tax Credit Program
Program Activity
($000's)

	Six Months Ended 31 March 2001	Year Ended 31 March 2002	Year Ended 31 March 2003	Two Months Ended 31 May 2003	Total
Approved applications	16	15	5	2	38
Approved capital	4,322	3,597	900	780	9,599
Capital raised	696	1,259	415	0	2,370
Tax credits issued	173	345	93	0	611

Source: Department of Finance Statistical Reports

Scope and Objectives

Our review of the Direct Equity Tax Credit Program was completed in October 2003. The objectives of our review were to determine whether:

- applications were adequately assessed and approved in accordance with established criteria;
- companies and investments were adequately monitored for compliance with *Direct Equity Tax Credit Regulations*; and
- performance criteria have been established to measure progress towards Program objectives.

Conclusions

The Direct Equity Tax Credit Program was developed to encourage private investment in new or expanding small businesses as a means of creating new jobs and diversifying the economy throughout the Province. The Program provides a Provincial income tax credit based on the amount of eligible investment.

Our review of the Program indicated that improvements are required in the approval of applications as well as in monitoring and reporting of Program activities. In particular:

- Documentation required to be provided by applicants under the *Regulations* was not always obtained prior to applications being approved.
- Annual financial statements, compliance statements, and other information required to be provided under the *Regulations* to monitor eligible businesses were not always received or were received late.
- While the Department does maintain statistical information on Program activities, it does not gather any information on the effects of the Program on such factors as employment or economic spin-offs, which could be used to determine whether the Program is meeting its objective of encouraging private investment in new or expanding small businesses as a means of creating new jobs and diversifying the economy throughout the Province.

Although the Program does not involve an expenditure of funds by a Government department, the Program does result in a reduction in Provincial taxation revenue. While tax credits issued under the Program reduce income tax revenue for the Province, the total amount of these tax credits is not reported to the House of Assembly. Therefore, Members of the House of Assembly do not receive adequate information on the costs of the Program, which to May 2003, totalled approximately $611,000.

Findings and Recommendations

Application and Approval

Since the Program was announced in October 2000, up until our review in May 2003, the Department of Finance approved 38 of 62 applications received from companies wishing to raise funds through the Program. Of the 24 applications not approved, 5 were denied, 9 were withdrawn and 10 were still being assessed.

Under the *Regulations*, in order for a company to be approved to raise capital under the Program it must submit an application and supporting documentation, meet established criteria and be approved. Figure 2 shows the information required.

Figure 2

Direct Equity Tax Credit Program
Application Information

Criteria	Information Requirements
Be a Canadian-controlled private Corporation	Reviewed or audited financial statements and T2 tax return, if applicable, for the preceding taxation year
Have a permanent establishment in the Province	The amount of capital to be raised
Have less than $10 million in assets	The proposed business activities
Have at least 75% of salaries and wages paid in the Province	The proposed use of funds
Have no more than 50 full time equivalent employees	The proposed locations for the utilization of funds
Have at least $25,000 in capital prior to issuance of shares under the Program	A listing of names and addresses of all directors of the corporation
Is engaged in, and will utilize funds for, qualifying activities, such as aquaculture, forestry and agrifoods, manufacturing, and tourism	Copy of the certificate of incorporation

Source: *Direct Equity Tax Credit Regulations* and Application

Our review of 13 of the 38 approved applications indicated that all required documentation was not obtained, as follows:

- 4 companies did not provide a copy of the certificate of incorporation;
- 2 companies did not provide reviewed or audited financial statements for the most recent year end; and
- 2 companies did not provide tax returns for the preceding tax year for itself or all of its associated companies.

Our review of these 13 approved applications also indicated that:

- In 6 instances where an extension to the three month period for raising funds was granted, the Minister of Finance did not provide approval as required under the *Regulations*. In one instance, an extension was granted for the period 4 January 2002 to 4 February 2002; however, the original certification period had lapsed on 27 May 2001.
- In 1 instance a company had an investment of $50,000 made 14 days prior to the application being approved; however, the Department agreed that it qualified for a tax credit.

Program Monitoring

Once an application is approved, monitoring is necessary to ensure the issuance of shares is in accordance with the *Regulations* and that funds are used for the intended purposes. The *Regulations* provide for such monitoring activities. In particular, the *Regulations* require an eligible company to prepare and file statements, reviewed by an accountant, with the Minister of Finance not more than 90 days after its fiscal year end. These statements include:

- Annual financial statements together with a statement as to how the invested funds were used. These statements are required annually for two years after the date the certificate of registration was issued.
- A statement that shareholders who have been issued qualifying shares continue to hold those shares. This statement is required annually for five years after the date the shares were issued.

Of the 38 approved applications, 25 had received eligible funds at the time of our review. Our review of 11 of these 25 companies identified that the required statements were not always being provided or were received after the 90 days period, as follows:

Annual Financial Statements:

- 2 companies did not submit the required financial statements for the first year after certification, and 4 did not submit financial statements for the second year after certification.
- 1 company provided financial statements in each of two years which were not evidenced as reviewed by an accountant.
- 6 financial statements for the first year and 4 financial statements for the second year were received after 90 days of the respective fiscal year ends. In 5 of these instances, the financial statements were not received until 8 to 24 months after the company's year end.

Compliance Statements:

- 5 companies did not provide a statement that the funds invested were used for their intended purposes.
- 5 companies did not provide a statement that the qualifying shares were still maintained by the shareholders. In 3 of the instances where statements were provided, 1 was prepared by an accountant who was a shareholder and had a qualified investment in the company, and 2 were not evidenced as being reviewed by an accountant.

In addition to the submission of annual financial statements and compliance statements, companies must satisfy certain criteria regarding the issuance of shares and the use of funds. These criteria are shown in Figure 3.

2.12 Direct Equity Tax Credit Program

Figure 3

Direct Equity Tax Credit Program Criteria

Shares	Prohibited Use of Funds
Be newly issued common shares and not replacement shares	Lending
Fully paid for in cash	Payment of dividends
A right to vote	Share purchase or redemption
A right to receive dividend	Payment of debt, debt reduction or refinancing of existing debt
A right to participate on dissolution	Funding purchase of all or part of a business as a going concern
Registered in name of shareholder	Funding the purchase of all or substantially all of the assets of a previously existing business except where the business is in receivership or bankruptcy
Not be redeemed within 5 years after issuance	Purchase of assets or services for a price greater than the fair market value

Source: *Direct Equity Tax Credit Regulations*

Our review of the Department's monitoring activities to ensure that qualifying companies meet the requirements of the *Regulations* identified the following:

- Of the 11 companies reviewed which had received eligible funds, 4 companies did not submit documentation to indicate that the shares were paid for in cash prior to the tax credit being issued. Although this documentation is not required by the Department, it would provide support of compliance with the *Regulations*. This is evidenced by the fact that in 2 other cases, the companies indicated that the shares had been paid for in cash; however, the Department subsequently determined that the shares were not in fact purchased by cash. In these 2 cases, the Department denied the issuance of tax credit receipts.

- Of the 11 companies reviewed, 3 companies did not submit copies of share certificates to support the type and amount of shares issued. Although the Department does not require a copy of the share certificates to be submitted, this information would aid in monitoring for compliance with the *Regulations*. A review of 2 files identified that the companies' subsequent financial statements did not show an increase in share capital.

- At the time of our review, the Department had conducted four audits of companies approved under the Program. Two of these audits resulted in the identification of various instances of non-compliance with the *Regulations*. As a result, tax credits valued at $202,500 which would have been issued, were cancelled. In one of these two instances, the investor was re-assessed for $30,000 for tax receipts that had already been issued.

- Although the Department receives an annual report from the Canada Customs and Revenue Agency which provides the amount of credits used during the current and prior taxation years, the amounts in the report are not reconciled to the credits issued by the Department. As a result, the Department cannot be certain that only legitimate tax receipts are being claimed.

- While the *Regulations* state that an information return used to confirm a qualified investment and to request an income tax receipt must be forwarded within 30 days of the period approved for raising qualified funds, in 2 of the 11 companies reviewed, the information return was not submitted until 85 days and 153 days after the period approved for raising qualified funds.

Reporting

The Department monitors and reports on various statistics of the Program, such as approved capital, actual capital raised, applicable investment credit rate, and amount of investment credit. These statistical reports are only provided to senior Departmental officials on an ad hoc basis. Furthermore, the Department neither gathers information nor reports on the effects of the Program on employment or economic spin-offs, what invested funds were used for, or the industries being invested in. Without such information, it is not possible for the Department to determine whether the Program is meeting its objective of encouraging private investment in new or expanding small businesses as a means of creating new jobs and diversifying the economy throughout the Province.

2.12 Direct Equity Tax Credit Program

Although the Program does not involve an expenditure of funds by a Government department, the Program does result in a reduction in Provincial taxation revenue. While tax credits issued under the Program reduce income tax revenue for the Province, the total amount of these tax credits is not reported to the House of Assembly. Therefore, Members of the House of Assembly do not receive adequate information on the costs of the Program, which to May 2003, totalled approximately $611,000.

Recommendations

The Department should:

- *ensure that all documentation required under the* Direct Equity Tax Credit Regulations *is obtained prior to applications being approved;*
- *ensure that all information required under the* Direct Equity Tax Credit Regulations *to monitor eligible businesses is provided;*
- *gather information on the effects of the Program which could be used to determine whether the Program is meeting its objective; and*
- *provide information to Members of the House of Assembly on the costs of the Program.*

Department's Response

- *The Direct Equity Tax Credit Program was implemented in October, 2000, and was administered in accordance with administrative guidelines as published on the departmental web site. The administrative guidelines evolved as the Department gained experience with the program, and the guidelines were formalized into regulations on April 20,2001.*

  Since April 20, 2001, with few exceptions, the Department has obtained all required documents prior to processing applications. The exceptions occurred when the information in a required document was available from another source.

  In order to ensure that the technical requirements of the regulations are satisfied, the Department is ensuring that all required documents are on file, and no longer relies on alternate information.

2.12 Direct Equity Tax Credit Program

- *The Department has established and implemented procedures to ensure all required information for monitoring purposes is provided.*

- *The Direct Equity Tax Credit Program, which is still relatively new, is designed to assist businesses in designated growth sectors of the economy to raise capital in order to generate long term economic and employment benefits. Once a sufficient amount of history has occurred, the Department of Finance, in conjunction with the Department of Industry, Trade and Rural Development will be monitoring the effectiveness of the program.*

- *While the Department has not reported formally to the House of Assembly, information is available to the House, to the Estimates Committee, or to the Public Accounts Committee on request.*

2.12 Direct Equity Tax Credit Program

2.13 Newfoundland and Labrador Farm Products Corporation

Introduction

Newfoundland and Labrador Farm Products Corporation (the Corporation) was established in 1963 under the *Farm Products Corporation Act*. In 1997, the Corporation closed its Corner Brook plant and sold the assets of its St. John's plant to Integrated Poultry Limited. In February 2000, Integrated Poultry Limited was placed into receivership and in March 2000, the assets were sold to 10874 Newfoundland Inc. (now known as Country Ribbon Inc.). As a result, Country Ribbon Inc. currently operates chicken production, processing and marketing activities in the Province.

Government has entered into a number of agreements relating to the privatization of most of Newfoundland and Labrador Farm Products Corporation's activities. The agreements relate to the sale of assets to Integrated Poultry Limited in October 1997, the sale of these assets to Country Ribbon Inc. in March 2000 following the receivership of Integrated Poultry Limited, and the financial assistance to Country Ribbon Inc. in July 2003 and October 2003.

Conclusions

In October 1997, the operations of Newfoundland and Labrador Farm Products Corporation in St. John's were privatized and Integrated Poultry Limited (IPL) became the operator. In February 2000, IPL went into receivership and in March 2000, the assets were sold by the receiver to Country Ribbon Inc.. As part of this sale, in March 2000 the Province entered into an agreement with Country Ribbon Inc.. This agreement had a number of conditions, including one that stated that the company would not seek any loan guarantees, grants or other forms of financial assistance from the Province in respect of the purchase of the business or in respect of the operation of the business to the end of the agreement on 9 March 2005.

However, in March 2003 Government gave approval for Country Ribbon Inc. to assign chicken quotas as security for raising long-term capital, in July 2003 Government provided a loan of $1.9 million for the purchase of grain, and in November 2003 Government provided financial assistance of $2.6 million. The $2.6 million was provided in exchange for shares in the company and at the same time, the $1.9 million loan from July 2003 was converted into shares.

2.13 Newfoundland and Labrador Farm Products Corporation

Update

In October 2003 we completed a review of the provisions of the various agreements. Our review identified a number of issues which are outlined as follows:

1. Country Ribbon Inc.

(a) Agreement relating to the purchase of IPL- March 2000

The 9 March 2000 agreement with Country Ribbon Inc. provided a number of obligations for both Farm Products and Country Ribbon Inc. for the five year term of the agreement. Our review of Country Ribbon Inc.'s obligations under the agreement indicated the following:

- **Obligation to invest $3 million in capital improvements**

  Country Ribbon Inc. agreed to invest in integrated chicken production, processing and marketing activity, the sum of $3.0 million in capital improvements by 9 March 2002. In September 2003, Government received independent audit verification that Country Ribbon Inc. had incurred capital expenditures in the amount of $744,693 from February 2001 to March 2002.

  While the Department did provide an unsigned draft letter from an auditor indicating that an additional $2.3 million had been spent on capital expenditures, the letter clearly indicated that no opinion was expressed as to whether there was compliance with the agreement. Therefore, this can not be considered as independent verification.

  As a result, Government has not determined that Country Ribbon Inc. has spent the required $3.0 million in capital improvements as required under the agreement.

- **Obligation to maintain employment levels**

  Country Ribbon Inc. agreed to maintain continuously, until 9 March 2005, employment levels at not less than 75% of the employment level existing on 9 March 2000. The employment level at 9 March 2000 was 271 person years, which would mean that the required employment level to be maintained would be 204.

Although the agreement was signed in March 2000, no independent audit verification of employment levels was provided by Country Ribbon Inc. or requested by Government until May 2003. In May 2003, the Deputy Minister of Forest Resources and Agrifoods requested that Country Ribbon Inc. provide independent audit verification that it had complied with this specific element of the agreement. It was not until October 2003 that Government received independent audit verification of Country Ribbon Inc.'s compliance with the required employment levels at 31 December 2000, 2001, and 2002.

- **Obligation not to seek financial assistance from the Province**

  Country Ribbon Inc. agreed not to seek any loan guarantees, grants or other forms of financial assistance from the Province in respect of the purchase of the business or in respect of the operation of the business to the end of the agreement on 9 March 2005.

  Country Ribbon Inc. did not comply with this requirement in that, since January 2003, as outlined below, Government was requested to provide further assistance to the company.

(b) Assignment of chicken quotas - March 2003

In February 2003, Country Ribbon Inc. requested that the Province assign chicken quotas to support long-term financing.

In March 2003, Cabinet approval was given for the Province's chicken quotas to be assigned by Country Ribbon Inc. for use as security for raising long-term capital to expand its business. The approval was subject to:

- Country Ribbon Inc. providing satisfactory evidence that financing for their capital expansion program was in place and that suitable working capital lines of credit were arranged with the bank;
- the quotas being transferred back to the Province when the long-term capital loan is repaid; and

- no further financial assistance being provided to Country Ribbon Inc. in accordance with the March 2000 agreement under which Country Ribbon Inc. agreed not to seek any loan guarantees, grants or other forms of financial assistance from the Province.

Country Ribbon Inc. did not comply with these requirements in that in April 2003, it advised Government that suitable working capital lines of credit could not be arranged with the bank, and that Government was again being requested to provide further assistance. In its April 2003 request, Country Ribbon Inc. informed the Province that without further Government assistance, the shareholders would commence an orderly wind-down of the Country Ribbon Inc. operations and begin the process of exiting the business.

(c) Promissory note - July 2003

Further to Country Ribbon Inc.'s April 2003 request, in June 2003, Cabinet approval was given to advance to Country Ribbon Inc. an amount not to exceed $2 million to finance a shipment of grain. As part of the approval, Country Ribbon Inc. was to repay the amount advanced by November 2003. In July 2003, Government paid $1.9 million to Country Ribbon Inc.. A promissory note was signed and Country Ribbon Inc. agreed to a number of temporary loan terms and conditions, such as to conduct its business affairs so as to protect Government's interests and to ensure safe delivery and storage of the grain.

Subsequent to our review, in November 2003, Government entered into a Share Purchase Agreement with Country Ribbon Inc. which resulted in the release of Country Ribbon Inc. from the requirement to repay the $1.9 million promissory note and instead there was a conversion of the $1.9 million into 1,900 second preference shares of Country Ribbon Inc..

(d) Equity investment - November 2003

In July 2003, Cabinet approval was given for the Province to provide a total equity investment in Country Ribbon Inc. of no greater than $4.5 million, inclusive of the $1.9 million already provided for the purchase of grain.

Prior to any funds being disbursed, Country Ribbon Inc. was to be advised that no further assistance would be provided by the Province. As well, a number of conditions were to be met, such as meeting specified employment targets and providing specified financial information. It was directed that a new agreement would replace the 9 March 2000 agreement with Country Ribbon Inc. and that a Share Purchase Agreement to accommodate these terms and conditions of the equity investment would have to be entered into.

Subsequent to our review, in November 2003, Government paid Country Ribbon Inc. $2.6 million relating to a Share Purchase Agreement entered into in October 2003 which provided that Government would receive a further 2,600 second preference shares of Country Ribbon Inc.. This was the same Share Purchase Agreement under which Government received the 1,900 shares relating to the $1.9 million promissory note. Under the Agreement, Government received a total of 4,500 second preference shares.

2. Integrated Poultry Limited

(a) Sale of St. John's plant assets to Integrated Poultry Limited - October 1997

Under the 1997 agreement with Integrated Poultry Limited, Government obtained personal guarantees of $50,000 from each of the 20 shareholders. Integrated Poultry Limited was subsequently placed in receivership on 23 February 2000. In April 2002, Cabinet directed the Department of Finance to proceed to collect on the personal guarantees. The Department did not proceed with this action and no guarantees were collected. In September 2003, Cabinet directed that Government not enforce the personal guarantees and that formal releases be executed.

(b) Receivership Process - February 2000

During the receivership process for Integrated Poultry Limited, the Receiver identified shareholder loans from 16 of its 20 shareholders totalling $112,614. The Receiver recommended to Government that no further action be taken to collect these accounts since the cost of doing so may well exceed any benefits that may be realized. Consequently, these shareholder loans were assigned to Government. In April 2002, Cabinet directed the Department of Finance to proceed to collect the loans. The Department did not proceed with this action and the loans were not collected. In September 2003, Cabinet directed that these loans be forgiven.

3. Newfoundland and Labrador Farm Products Corporation

Lease agreement relating to Corner Brook plant - April 2002

When the Corner Brook plant closed in 1997, Government provided $500,000 to enable a new company, Maple Valley Foods Limited, to be formed by the former employees to investigate alternative uses for the facility. In March 2002, Cabinet directed the Corporation to enter into a nominal lease with Maple Valley Foods Limited for the use of the property and building in Corner Brook until 30 September 2003. Cabinet also directed the Department of Finance to provide the Newfoundland and Labrador Farm Products Corporation with a grant of $200,000 to continue to pay expenses related to the Corner Brook facility to September 2003.

In April 2002, the Corporation entered into the lease. Our review disclosed the following:

- Although Maple Valley Foods Limited was required to have adequate insurance on the use and occupation of the property and to have the Province named as an insured party, the required insurance was not in effect during the term of the lease.

- Although the lease contained a number of terms and conditions that could only be properly validated with a site visit by Corporation officials, the last documented site visit occurred in September 2002. These terms and conditions included assessing the physical condition and alterations to the Corner Brook plant.

In September 2003, Cabinet directed the Corporation to extend the lease of the Corner Brook plant to Maple Valley Foods Ltd. for a further three month period to 30 December 2003, subject to the terms and conditions of the original lease.

Board's Response

Responsibility for monitoring Country Ribbon Inc. (CRI) now rests with the Department of Forest Resources and Agrifoods and they may respond to your observations. Issues relating to the Integrated Poultry Limited (IPL) personal guarantees and stakeholder loans should be directed to the Department of Finance. NFPC was not engaged in the most recent transactions with CRI involving the assignment of chicken quotas, a promissary note or an equity investment. Accordingly, NFPC would have no comment on any of these issues.

With respect to the Corner Brook plant, insurance coverage has now been confirmed and the present lease has been extended to December 30, 2003.

Department of Finance Response

Country Ribbon Inc.

Agreement relating to the purchase of IPL - March 2000

With respect to Country Ribbon Inc.'s obligations under the March 9, 2000 Agreement with the Province, Government had received confirmation of the capital expenditures and employment levels in March 2002. In your 2002 Annual Report you commented that the information provided by Country Ribbon had not been independently verified. It was because of this comment that Country Ribbon was written in May 2003 and asked to provide independent audit verification, although this was not specifically required under the 2000 Agreement. These became two of a number of pre-conditions which were met prior to closing the preference share purchase on November 17, 2003.

The unsigned draft letter from the former auditors of Country Ribbon, to which you refer in your Report, was just that - a draft provided for review. We indicated to your staff that we were not satisfied with the draft letter, and that Government would address the matter prior to closing of the Share Purchase Agreement. Subsequently, independent confirmation was received, and a copy provided to your Office before finalization of this Report paragraph. At no time did this Department consider the draft letter as independent verification.

Obligation to maintain employment levels

The Department agrees with the facts in this paragraph but would also like to point out that the independent verification dated 19 September, 2003 provided by Grant Thornton, auditor for Country Ribbon, confirmed that the employment levels exceeded the required minimum in each of the three years ended 31 December, 2002.

Assignment of chicken quotas - March, 2003

The Department agrees with the opinion that Country Ribbon did apply for assistance, contrary to the 2000 Agreement.

2.13 Newfoundland and Labrador Farm Products Corporation

Country Ribbon stated in its application that it was unable to find commercial credit without Government assistance and that if Government could not respond the Company would have to be wound up. If Country Ribbon closed, $20 million in estimated economic benefits would be lost, as well as more than 300 jobs. Also, other producers, such as egg and dairy farmers, who depend on Country Ribbon for feed grain would have to find alternative sources at substantially higher costs.

Because of the strategic importance of Country Ribbon to the agriculture industry, Government agreed to review its application despite the covenants in the 2000 Agreement.

Promissory Note - July 2003

The Department agrees that Government advanced Country Ribbon a temporary loan of $1.9 million to finance a grain shipment. This was necessary to ensure that Country Ribbon continued to have a supply of feed grain while negotiations were being conducted for a suitable restructuring of the Company's financial affairs. It was the clear understanding at that time that this loan advance would form part of any Government equity investment if the negotiations were successful. Subsequently, that proved to be the case and, as stated in the Share Purchase Agreement, Government financed its 4,500 share purchase by a cash payment of $2.6 million and conversion of the $1.9 million loan.

Integrated Poultry Limited

Sale of St. John's plant assets to Integrated Poultry Limited - October 1997

The Department agrees with the comments in this section of the report.

Receiver Process - February 2000

The Department agrees with the comments in this section of the report but wishes to emphasize that the Receiver was appointed by the Courts and the Courts approved the Receiver's recommendation that no further action be taken to collect these accounts, as the cost of the collection was estimated to exceed the $112,614 value of the receivables. Prior to asking the Court to accept his recommendation, the Receiver had obtained the concurrence of the secured creditors of which the Province was one.

2.13 Newfoundland and Labrador Farm Products Corporation

Conclusion

The Department agrees with the statements made in this section of the report, although it again must be emphasized that if Country Ribbon was allowed to fail, this would have had a major impact on the Province's agriculture sector and, effectively, would have removed this Province from the Canadian chicken processing industry as, under the national system, this Province's share of the chicken quota allocation would have been lost.

Department of Forest Resources and Agrifoods Response

I have reviewed the responses provided by the Chair of the Newfoundland Farm Products Corporation and by the Deputy Minister of Finance, and concur with their comments. There is nothing additional to add as each of the issues raised in your report have been fully covered.

2.13 Newfoundland and Labrador Farm Products Corporation

2.14 Newfoundland and Labrador Liquor Corporation

Introduction

The Newfoundland and Labrador Liquor Corporation (the Corporation) is an agency of the Crown incorporated under the *Liquor Corporation Act* of the Province of Newfoundland and Labrador. The Corporation is responsible for managing the importation, sale and distribution of beverage alcohol throughout Newfoundland and Labrador. The Corporation also manufactures and distributes several brands and types of alcoholic beverages. In addition, the Corporation receives commissions on the sale of beer within the Province. The Corporation has approximately 300 staff and is managed by a Board of Directors appointed by the Lieutenant-Governor in Council.

In addition to its head office and bottling plant located in St. John's, as of 31 March 2003 the Corporation operated 23 retail stores throughout the Province. The Corporation also serviced 101 agency stores and distributed its products to more than 1,500 licensees. Agency stores are private sector businesses which sell alcoholic beverages on behalf of the Corporation. Licensees are private sector establishments such as lounges and restaurants which sell alcoholic beverages.

The Corporation had $118.2 million in sales during the year ended 31 March 2003, with a gross profit on those sales of $68.1 million. The Corporation's net income was $92.3 million. Each year, the Corporation transfers an amount to the Province representing a distribution of its net income. For the year ended 31 March 2003, a total of $93.0 million was transferred to the Province.

At 31 March 2003, the Corporation had total assets of $55.5 million, consisting of $11.1 million in cash and $24.2 million in inventories, and had total liabilities of $18.8 million. Retained earnings totalled $36.7 million.

Scope and Objectives

We completed our review of the Newfoundland and Labrador Liquor Corporation in October 2003. The objectives of our review were to:

- review the financial position and operating results of the Corporation;
- determine whether controls over the purchasing of goods and services are adequate and that such expenditures are made in accordance with the *Public Tender Act* and the Corporation's policies and procedures;
- determine whether there was adequate monitoring and control of sales agents; and

- determine whether controls over the selection of agency stores are adequate.

Conclusions

Financial Position and Operating Results

The Newfoundland and Labrador Liquor Corporation has a monopoly on the sale of alcohol products in the Province and is in sound financial condition, contributing significant amounts of cash to the Provincial treasury each year. In 2003 for example, the Corporation paid $93 million to the Province's Consolidated Revenue Fund.

There is an issue with the inventory levels maintained by the Corporation. During the five years ended 31 March 2003, the Corporation's inventory turnover rate averaged approximately 2 times per year. This would suggest that the inventory level maintained by the Corporation is much too high or that the Corporation maintains a considerable amount of slower moving stock. Inventory levels and turnover has been considered by the Corporation and a new point of sale system is expected to help determine the types and optimum levels of inventories.

Renovations

As of 18 November 2003, the renovations at the Corporation's Head Office were still ongoing and actual costs totalled approximately $2.57 million. Corporation officials indicated that the renovations are expected to be completed on schedule at an expected cost of approximately $3.14 million.

The Corporation's Board did not approve an overall plan to renovate its Head Office, nor were regular updates provided to the Board on the status of the renovation project. Considering the significant cost and time spent on the renovations, we would have expected that an overall plan would have been provided to and approved by the Board. In addition, this information could have been used by the Board to monitor the progress of the project against the original estimated cost and completion date.

The Corporation spent a significant amount of public money on several purchases which could be considered as being excessive. For example, furniture for one of the executive offices cost approximately $31,000 and "high-end" audio visual equipment costing approximately $180,000 was purchased for the boardroom and training room.

2.14 Newfoundland and Labrador Liquor Corporation

Public Tender Act

The Corporation did not always comply with the requirements of the *Public Tender Act* as follows:

- There were 5 instances where the Corporation did not call public tenders for goods and services.

- Change orders for increases in the original contracts were not approved in accordance with the requirements of the *Public Tender Act* . In 3 instances totaling $74,994, which required the approval of the permanent head i.e the President or delegate, work commenced prior to the approval of the change orders. In 14 instances totaling $221,810, the change orders were not approved by the Board of Directors as required.

- In 1 instance a change order was prepared for $53,221 relating to an original contract valued at $69,720. Given the magnitude of the change order and the change in the specifications of what was purchased, in accordance with the requirements of the *Public Tender Act*, a new tender should have been called.

Marketing

During the fiscal year ended 31 March 2003 the Corporation spent approximately $987,000 on marketing its products. Marketing expenditures include such items as advertising and marketing campaigns, hosting the annual wine show, participating in a rum festival, maintaining the Mile One Corporate Box, provincial and national sales agents, and the annual golf tournament. Our review indicated issues with these expenditures as follows:

- The Corporation does not call public proposals for its various marketing campaigns. Instead, Corporation officials indicated that proposals are requested from firms they consider would be qualified to complete the required work. It was further indicated that while strengths and weaknesses of proposals received are considered, no formal process is in place to evaluate, rank and select proposals received for marketing campaigns. As an example, one firm received $101,291 during 2002-03 without a public proposal call and there was no documentation to support why this firm was selected. By not calling a public proposal call the Corporation cannot demonstrate that it is receiving the best services at the best price.

Furthermore, there are no contracts in place to outline the role, responsibilities and accountabilities of these firms.

- In June 2001, the Corporation entered into a four year contract for a Corporate Box at Mile One Stadium in St. John's. During the year the Corporation spent $66,551 relating to the use of this Box. There was no cost-benefit analysis prepared to support the need for the Box, there was no reference to the Box in the Corporation's 2002-03 or 2003-04 Business Plans and the Corporation has not established any goals and objectives relating to the Box. As a result, the Corporation could not demonstrate whether the cost of the Box has had any positive impact and whether there is an on-going cost-benefit for the Corporation.

  The records maintained by the Corporation for the Corporate Box do not indicate specifically who attended a given event. Instead, there is a general record of the group which used the Box and what it was utilized for on a given occasion. Of the 108 events attended during 2002 and 2003, 44 were attended by either members of the Board of Directors, Corporation Executive or Corporation staff. It is not clear how usage by those groups contributes to the Corporation's marketing strategy.

  Using public monies to provide the use a Corporate Box to Corporation officials and staff for entertainment or reward purposes is inconsistent with Government's compensation and entertainment policies.

- The Corporation uses the services of Provincial and National sales agents as well as sales agents in other provinces. During the year ended 2002-03, these agents were paid a total of $186,000. We found that the Corporation is not calling for proposals for the provision of these services. Furthermore, there were no signed contracts in place for any of these sales agents that could be used by the Corporation to monitor and control the work of these agents.

Agency Stores

The Corporation issues a public proposal call for the selection of agency store operators. Although the proposals relating to agency stores are reviewed by two regional managers and the Corporation's internal audit group, we were informed by officials that they were directed not to make any recommendation to the Board of Directors as to the ranking of each bid and which bid Corporation officials felt was the most appropriate based on the analysis completed.

Instead, the Board is provided with information on all applicants and the financial analysis that results from the review process, and it makes a decision based on this information which is then forwarded to the Minister of Finance for final approval. The reasons for the Board's selection are not documented. As a result, the selection process used by the Corporation is not transparent and is not based on an objective assessment of how each applicant meets qualifying criteria.

At the time of our review, there were no signed contracts in place for 36 of the 44 agency store files that we reviewed.

Retail Stores

The Corporation did not complete market studies or otherwise make use of any defined process to analyze the need for the three new stores that were opened in St. John's, Mount Pearl and Stephenville during the period of our review. Corporation officials indicated that the decision to open new retail stores is generally initiated by the Corporation's Executive based on their knowledge.

Payments made by the Corporation under lease agreements for the three new stores were not consistent with the terms contained in the successful tender bids. As a result, the Corporation was paying approximately $37,000 per year in excess of the amounts specified in the tender bids. The Corporation has since ceased paying these additional costs.

Other Expenditure Issues

There were a number of issues identified during our testing of expenditures as follows:

- Entertainment expenses totalling $19,900 claimed by the President and $8,400 claimed by the Chief of Operations did not have sufficient documentation to demonstrate that the expenses claimed were for Corporation business. In addition to the lack of information on the purpose of the entertainment and who attended, in most instances the expense was only supported by either a credit card slip or a credit card statement.

- Contrary to it's travel policy, the Corporation paid $3,552 for the spouses of the President and the Chair of the Board of Directors to attend a wine show in New York City and also paid for various conference registration fees for these spouses as well as the spouse of the Director of Enforcement. The Corporation was reimbursed an amount of $990 relating to the cost of the airline ticket for the President's spouse to attend the wine show.

2.14 Newfoundland and Labrador Liquor Corporation

- The Corporation has been using the services of the same engineering firm since the early 1980's to assist in the management of the Corporation's capital construction and renovation projects. The Corporation has not called for proposals since that time and there are no current terms of reference and no current contract in place. The firm was paid approximately $338,000 for the year ending 31 March 2003.

Board of Directors Expenditures

- Contrary to Government's policy for remuneration for Board members, during the year, liquor or other alcoholic beverages with a retail value of approximately $11,500 was provided to the Board. Although a portion of this total relates to an annual Christmas party for the Board, officials could not provide the amount spent for this purpose. We were informed, however, that Board members are provided with a Christmas package that would include these products. Furthermore, much of the liquor or other alcoholic beverages provided were premium brands, some having a retail value of $197 per bottle.

- Of payments totaling $31,920 to the Chairperson of the Board of Directors for the period 13 May 2000 to 31 March 2003, payments of $10,830 were not in accordance with the policies of both the Provincial Government and the Corporation relating to remuneration of board members.

Findings and Recommendations

Financial Position and Operating Results

At 31 March 2003, the Corporation had total assets of $55.5 million, liabilities of $18.8 million and equity of $36.7 million. Details of the Corporation's financial position for each of the past five years is outlined in Figure 1.

2.14 Newfoundland and Labrador Liquor Corporation

Figure 1

Newfoundland and Labrador Liquor Corporation
Balance Sheet
As at 31 March
($000's)

	1999	2000	2001	2002	2003
Cash	$ 16,405	$ 12,841	$ 13,931	$ 14,309	$ 11,051
Accounts Receivable	2,109	2,332	5,650	3,220	3,374
Beer Commissions Receivable	4,068	4,209	3,738	4,256	3,949
Inventories, at cost	19,877	20,812	22,377	23,297	24,161
Prepaid Expenses	453	363	406	555	481
Total Current Assets	42,912	40,557	46,102	45,637	43,016
Capital Assets	3,328	3,104	4,586	5,656	8,284
Leased Assets	135	106	308	1,844	4,085
Intangible Assets	0	183	162	142	122
Total Long Term Assets	3,463	3,393	5,056	7,642	12,491
Total Assets	46,375	43,950	51,158	53,279	55,507
Accounts Payable & Accrued Liabilities	11,474	12,271	13,162	12,958	15,519
Accrued Vacation Pay	388	408	518	666	884
Current Portion of Long Term Debt	0	0	0	0	100
Current Portion of Capital Lease	100	100	100	100	49
Total Current Liabilities	11,962	12,779	13,780	13,724	16,552
Accrued Severance Pay	1,690	1,718	1,883	2,042	2,210
Long Term Debt	400	300	200	100	0
Obligation under Capital Lease	0	0	0	0	62
Total Long Term Liabilities	2,090	2,018	2,083	2,142	2,272
Total Liabilities	14,052	14,797	15,863	15,866	18,824
Retained Earnings	32,323	29,153	35,295	37,413	36,683
Total Liabilities and Equity	$46,375	$43,950	$51,158	$53,279	$55,507

Source: Audited Financial Statements

2.14 Newfoundland and Labrador Liquor Corporation

The Newfoundland and Labrador Liquor Corporation has a monopoly on the sale of alcohol products in the Province and is in sound financial condition, contributing significant amounts of cash to the Provincial treasury each year. We did, however, find that there is an issue with the levels of inventory maintained by the Corporation.

- During each of the last five years the Corporation's inventory turnover rate averaged approximately 2 times per year, as represented by its average inventory during the year divided into its cost of goods sold. For example, at 31 March 2003 the Corporation had inventories on hand of $24.2 million (2002 - $23.3 million), cost of goods sold of $50.1 million (2002 - $44.8 million) resulting in an inventory turnover rate in 2003 of 2.1 (2002 - 2.0). Fast inventory turnover means that the inventory levels and associated costs are kept lower. The low inventory turnover at the Newfoundland and Labrador Liquor Corporation suggests that the inventory levels may be too high or that the Corporation maintains a considerable amount of slower moving stock. Officials at the Corporation have acknowledged this issue and indicated that a point of sale system is being introduced which will assist in more closely monitoring and controlling inventory levels.

For the year ended 31 March 2003, the Corporation had sales of $118.2 million and net income of $92.3 million. Details of the Corporation's operating results for each of the past five years is outlined in Figure 2. As Figure 2 shows, the Corporation provides considerable revenues to the Province each year and for the year ended March 2003 paid a total of $93.0 million.

Figure 2

Newfoundland and Labrador Liquor Corporation
Operating Results
Years Ended 31 March
($000's)

	1999	2000	2001	2002	2003
Sales	$ 97,280	$ 104,391	$ 109,860	$ 108,455	$ 118,217
Cost of Sales	39,437	42,207	44,456	44,832	50,121
Gross Profit	57,843	62,184	65,404	63,623	68,096
% of sales	***59.5%***	***59.6%***	***59.5%***	***58.7%***	***57.6%***
Operating Expenses	16,156	17,325	18,248	21,143	26,686
% of sales	*16.6%*	*16.6%*	*16.6%*	*19.5%*	*22.6%*
Beer Commission	41,740	43,959	44,655	46,693	46,849
Other Income	3,758	4,012	4,330	3,945	4,012
Net Income	87,185	92,830	96,141	93,118	92,271
Distribution to Province	$ 80,400	$ 96,000	$ 90,000	$ 91,000	$ 93,000

Source: Audited Financial Statements

Our review of the Corporation's operating results indicated the following:

- The Corporation's gross profit as a percentage of sales has declined for 2002 and 2003. For the years 1999, 2000 and 2001 the gross profit was approximately 59.5 %; however, by 2003 the gross profit had fallen to 57.6 %. This lower gross profit margin represents a significant reduction in profits available for distribution to the Province. Officials at the Corporation were aware of the gross profit decline and indicated that it related to a change in product mix attributed to changes in demographics.

- The Corporation's operating expenditures as a percentage of sales have increased for 2002 and 2003. For the years ended 1999, 2000 and 2001 expenditures as a percentage of sales were approximately 16.6 %. However, in 2002 this percentage increased to 19.5% and in 2003 the percentage increased to 22.6%. In 1999 operating expenses totalled $16.2 million and in 2003 operating expenses had increased to $26.7 million, an increase of $10.5 million or 65%. Officials at the Corporation were aware of the expenditure increases and indicated that they related to salary increases, the opening of three new retail stores and general increases in expenditures and that there has been no general increase in the selling price of alcohol since 1 June 2001.

Controls over the Purchasing of Goods and Services

Our review of Corporation expenditures indicated that controls over the purchasing of goods and services are not adequate. Details of our findings are outlined below.

1. Compliance with the *Public Tender Act*

The *Public Tender Act* requires that the Corporation invite tenders where the estimated cost of goods and services is more than $10,000 and in the case of construction or enlargement of a building the estimated cost is more than $20,000. Where tenders are not called for amounts in excess of these threshold amounts, or where the tender is not awarded to the lowest bidder, the Corporation must report the matter to the Minister of Works, Services and Transportation who tables the report in the House of Assembly.

As part of our review of the Corporation's operations we tested for compliance with the *Public Tender Act*. Items reviewed are outlined in Appendix 1 and included such areas as renovation projects, security, cleaning, and freight. Our review indicated that the Corporation is not always complying with the requirements of the *Public Tender Act* as follows:

- No public tender was called for the provision of approximately $30,000 per year in security services (included in Item 17 in Appendix 1). Corporation officials indicated that no tender was called as it was felt that the price offered by the existing supplier could not be matched by others. For the Corporation not to tender based on this assumption is contrary to the spirit and intent of the *Act*.

2.14 Newfoundland and Labrador Liquor Corporation

- No public tender was called for the provision of a three-year armoured car services contract worth approximately $141,241 (Item 18 in Appendix 1). Instead the Corporation obtained quotes from two companies and awarded the contract to the company that provided the lowest quote. Even though the Corporation received quotes from two companies, it was reported to the Minister that the provider was a "sole source".

- No public tenders were called for three two-year contracts worth a total of more than $1 million per year for freight transportation from suppliers in Canada and the United States to the Corporation's warehouse in St. John's (included in Item 16 in Appendix 1). Instead the Corporation invited quotes from six companies and received a response from five. The actual freight transportation services were divided among three companies.

- No public tender was called for the transportation of brands manufactured by the Corporation to mainland Canada (included in Item 16 in Appendix 1). Instead, the Corporation arranged for this service to be provided, as required, by the three companies referred to above which had been contracted for freight transportation in the reverse direction, i.e. from mainland Canada and the United States to St. John's. The transportation charges were based on rates quoted by the companies for transporting freight in the reverse direction.

- No public tender was called for the provision of 250 wooden wine islands for the Corporation's retail stores (Item 14 in Appendix 1). Instead, the Corporation issued a public "pre-qualification" request to determine whether bidders had the necessary experience and technical ability to produce wooden wine islands. The Corporation received 8 bids and asked all 8 to submit a quote as to how much it would cost to provide 250 wooden wine islands. Only 3 of theses 8 companies submitted a bid and only 2 were deemed acceptable. The contract was awarded to the lowest bidder at $550,025. Furthermore, contrary to the *Public Tender Act, Regulations*, the 3 bids were not opened publicly.

- The Minister of Works Services and Transportation was not notified of a sole source contract relating to the shipment of alcoholic beverages from various countries around the world to Halifax (Item 15 in Appendix 1). Although the *Public Tender Act* requires that the Minister be notified of sole source services by way of a Form B, this was never provided. For the year ended 31 March 2003 this company was paid approximately $769,000 (2002 - $912,000).

2.14 Newfoundland and Labrador Liquor Corporation

- Five contracts were not awarded to the lowest bidder for freight transportation services within the St. John's area (included in Item 16 in Appendix 1). Although the *Public Tender Act* requires that contracts be provided to the lowest qualified bidder, of the 13 routes tendered for transportation services, 5 were not awarded to the lowest bidder. These 5 contracts were for a two-year period commencing 1 April 2000 with a one year extension option. Furthermore, although the *Public Tender Act* requires that the Minister be notified of instances where a contract is awarded to other than the lowest qualified bidder by way of a Form A, this was never provided.

- Increases in the original contracts were not approved in accordance with the requirements of the *Public Tender Act* which requires approval from various levels of the Corporation depending on the amount of the change before any work commences.

    - In 3 instances totaling $74,994, which required the approval of the permanent head i.e the President or delegate, work commenced prior to the approval of the change orders. (Items 3, 5, 12 in Appendix 1)

    - In 14 instances totaling $221,810, which required the approval of the Board of Directors, the change orders were not approved by the Corporation's Board of Directors. (Items 1,2,5,6,9,12,13 in Appendix 1)

- In 1 instance (Item 9 in Appendix 1) a change order was prepared for $53,221 relating to an original contract valued at $69,720. Given the magnitude of the change order and the change in the specifications of what was purchased, in accordance with the requirements of the *Public Tender Act*, a new tender should have been called.

- The Corporation called a public tender for the purchase of an automobile in May 2001 (Item 22 in Appendix 1). However, in June 2001 the Corporation had to re-tender for this purchase because the bids received for the original tender were lost.

2.14 Newfoundland and Labrador Liquor Corporation

2. Corporation Retail Stores

As at 31 March 2003 the Corporation operated 23 retail stores throughout the Province. Total annual lease payments relating to these stores for the year ended 31 March 2003 was approximately $1.23 million (2002-$1.02 million). During the period covered by our review, the Corporation entered into lease arrangements for three new stores in St. John's, Mount Pearl and Stephenville. Annual lease payments relating to these three stores are $76,875, $76,875 and $58,858 respectively.

We reviewed the Corporation's process followed in identifying the need for new retail stores and how the site of new retail stores is determined. We also reviewed controls over lease payments and the process followed in the selection of leased space for the three new retail stores in St. John's, Mount Pearl and Stephenville. Our review identified the following issues:

- The Corporation did not complete market studies or otherwise make use of any defined process to analyze the need for the three new stores. Corporation officials indicated that the decision to open new retail stores is generally initiated by the Corporation's Executive and recommended to the Board of Directors for final approval by the Minister of Finance. For example, we were informed that the decision to open stores in St. John's, Mount Pearl and Stephenville stores was made by the Executive based on their knowledge of development occurring in these areas and approved by the Board of Directors and, through the budget process, by the Minister of Finance.

- Payments made by the Corporation under lease agreements for the three new stores were not consistent with the terms contained in the successful tender bids. While the successful bids specified that Harmonized Sales Tax (HST) would be included in the lease rate, and in the case of the St. John's and Mount Pearl stores, that common area costs were included in the lease price, the Corporation paid the lease rate plus HST and also paid amounts related to common area costs. As a result, the Corporation was paying approximately $37,000 per year in excess of the amounts specified in the tender bids. The Corporation has since ceased paying these additional costs.

- In March 2000, the Corporation decided to sell its retail store property in Stephenville and issued public tenders for this sale and for the lease of new retail space. Corporation officials could not provide any documentation, such as a cost-benefit analysis, to support why it decided to sell this property and to lease new store space.

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Our review of the sale of the property and the lease of new retail space indicated that it resulted after a most unusual series of events as follows:

When the tender for the sale of the property closed in March 2000, two bids had been received - one from a major grocery chain for $118,000, and one from a local company for $156,975. In an appraisal conducted for the Corporation in 1999, the appraised value of the existing store property was $205,000. Documentation contained in tender files indicated that the grocery chain had already purchased most of the property surrounding the Corporation's existing retail store in order to construct a new grocery store.Corporation officials indicated that the local company which had submitted the highest qualifying bid for the purchase of the retail property wrote the Corporation on 1 May 2000 indicating that the sale of the retail property should not be linked to the leasing of new retail space and that, because they submitted the highest bid for the retail property, that the sale should be awarded to them.

On 25 May 2000 the Corporation cancelled both tenders and in June 2000 re-tendered for the sale of their property and the lease of retail space. This time the Corporation more clearly indicated that either separate bids for the sale of the property and the acquisition of store space, or linked bids would be accepted. As a result of this tender, 5 bids were received - 1 bid was to provide only the retail lease space and the remaining 4 bids were for both the purchase of the retail property and the lease of retail space. This time, the successful bidder for the purchase of the retail property from the first tender did not submit a bid while the grocery chain from the first tender submitted the highest bid at $250,000 for the purchase of the store property, $132,000 higher than its bid in the first tender. They also had the best bid on the lease of retail space and were also awarded that contract valued at $58,858 per year.

3. Marketing Expenditures

During the fiscal year ended 31 March 2003 the Corporation spent approximately $987,000 on marketing its products. During the year marketing expenses were 29% more than the 2002 amount of $766,000 and 110% more than the 2001 amount of $472,000. Marketing expenditures include such items as advertising and marketing campaigns, hosting the annual wine show, participating in a rum festival, maintaining the Mile-One Corporate Box, provincial and national sales agents, and the annual golf tournament.

2.14 Newfoundland and Labrador Liquor Corporation

Our review of marketing expenditures indicated the following:

(a) Marketing Campaigns

During the year ended 31 March 2003, the Corporation engaged one firm for the majority of its marketing campaign work. This firm received a total of $101,291 during the year. Corporation officials indicated that the Corporation does not call public proposals for its various marketing campaigns. Instead, Corporation officials indicated that proposals are requested from firms they consider would be qualified to complete the required work. It was further indicated that while strengths and weaknesses of proposals received are considered, no formal process is in place to evaluate, rank and select proposals received for marketing campaigns. As well, contracts are not utilized to outline the role, responsibilities and accountabilities for work performed.The awarding of work of this value without a public proposal call is contrary to Government's position that a level playing field be provided for all businesses in the Province. Also, by not calling a public proposal call the Corporation cannot demonstrate that it is receiving the best services at the best price.

(b) Mile One Stadium Corporate Box

In June 2001, the Corporation entered into a four year contract for a Corporate Box at Mile One Stadium in St. John's. The Corporation's four year commitment, to 31 May 2005, is for $45,000 per year plus a one time furnishing fee of $2,000. With this package, the Corporation receives 12 tickets for all events, one VIP parking pass, advertising on signage along the rink, advertising along the main concourse and advertising in the hockey game-day program. In addition to the Corporate Box, the Corporation also purchased two season tickets to the St. John's Maple Leafs games. They also bought two personal seat licences associated with the two season ticket seats which gives the Corporation the first right of refusal to tickets for other events at the Stadium. Details of expenditures relating to the Mile One Stadium Corporate Box are outlined in Figure 3.

Figure 3

Newfoundland and Labrador Liquor Corporation
Mile One Stadium Corporate Box
Expenditure Details
Years Ended 31 March

Description	2002	2003
Box Rental	$ 45,000	$ 45,000
Entertainment - Food and Alcoholic Beverages	14,115	16,113
Furnishings	2,000	N/A
Cleaning Costs	885	1,065
Corporate Box	62,000	62,178
Event Tickets (including season tickets)	4,297	4,373
Total	$ 66,297	$ 66,551

Source: Corporation Financial Records

Our review of the Corporation's involvement with the Corporate Box indicated significant concerns relating to its acquisition, use, and overall monitoring as follows:

- Although officials at the Corporation have indicated that the Box was acquired for promotion of local products, as a donation to charitable or community groups, and for internal corporate use, there was no cost-benefit analysis prepared to support the need for the Box. Furthermore, although minutes of the Board of Directors indicated that: *"The initiative is intended as a key component of the Corporation's marketing strategy."*, we note that there is no reference to the Box in the Corporation's 2002-03 or 2003-04 Business Plans. The Corporation has not established any goals and objectives relating to the Box and as a result it is not possible to determine whether it has had any positive impact and whether there is an on-going cost-benefit for the Corporation.

- The records maintained by the Corporation for the Corporate Box do not indicate specifically who attended a given event. Instead, there is a general record of the group which used the Box and what it was utilized for on a given occasion.

  A significant number of events are evidenced in the records as only being attended by either members of the Board of Directors, Corporation Executive or Corporation staff. Of the 108 events attended (52 in 2003 and 56 in 2002), 44 (24 in 2003 and 20 in 2002) were listed as being attended only by those groups. It is not clear how usage by those groups contributes to the Corporation's marketing strategy.

  It is also noted that the Corporate Box attendance records indicated that certain high profile events such as concerts, the Juno Awards, and figure skating shows were often listed as having been attended only by members of the Board of Directors or the Board and Executive.

Using public monies to provide the use of a Corporate Box to Corporation officials and staff for entertainment or reward purposes is inconsistent with Government's compensation and entertainment policies. In providing this benefit to employees, the Corporation sometimes incurs travel costs for employees from outside the City who are using the Box. For example, in one case in November 2002, over $3,300 was paid in travel expenses for 9 employees who used the Corporate Box while attending a hockey game.

(c) Sales Agents

The Corporation utilizes the services of three main types of sales agents: a Provincial sales agent, a national sales agent, and sales agents in other provinces. These sales agents are responsible to promote the various beverage products produced by the Corporation.

We reviewed the Corporation's practices in the selection and monitoring of these sales agents. Our review indicated that controls over the selection and monitoring of sales agents are not adequate. Specifically, the Corporation is not calling for proposals for the provision of these services and is not adequately monitoring and controlling the work of the agents. Findings related to each of these agents are as follows:

2.14 Newfoundland and Labrador Liquor Corporation

Provincial Sales Agent

The Provincial sales agent acts as the Corporation's exclusive agent in the Province for promoting the various beverage products produced by the Corporation. During the year ended 31 March 2003 this company was paid $57,618 (2002 - $45,436). Our review of the Corporation's payments in relation to these services indicated the following:

- The Corporation did not call for proposals for these services. Instead, the Corporation continued to use the services of the agent it had used previously, the contract for which expired in March 1999.

- The Corporation could not provide a current signed contract for these services. The old contract which expired in March 1999 specified that the sales agent will receive $40,000 per year plus a 5% promotional allowance and that if the established quota is exceeded the agent will receive a 10% commission on the Corporation's selling price plus a 5% promotional allowance. While the old contract requires the agent to *"Produce a sales growth pattern for the products that is acceptable to the Corporation when compared to the sales growth pattern for the product category."*, there has been no review or change to the April 1996 sales quota set for the old contract.

National Sales Agent

The national sales agent assists the Corporation in the national marketing of alcoholic beverages produced by the Corporation. Prior to 2003, the Corporation did not engage the services of a national sales agent. During the year ended 31 March 2003 this agent was paid $58,144 (2002 - $0). Our review of the Corporation's payments in relation to these services indicated the following:

- The Corporation did not call for proposals for these services. We were informed that the selection of the sales agent was made by the Corporation's President.

- Although the Corporation provided the general terms of the services in a letter to the sales agent in April 2002, this letter does not specify the role, responsibilities and accountabilities of the agent.

- While the April 2002 letter indicated that after six months, the arrangement between the Corporation and the sales agent would be reviewed, the Corporation could not provide documentation to show that the required review was undertaken.

- The sales agent was paid $2,136 for services provided in April 2002 and was paid $3,500 - the full monthly fee for May 2002. However, the sales agent did not commence work for the Corporation until 13 May 2002. Corporation officials could not explain why these payments were made prior to the sales agent's work commencement date.

Sales Agents in Other Provinces

Sales agents in other provinces act as the exclusive agents for the Corporation in promoting its products in those provinces. During the year ended 31 March 2003 these agents were paid a total of $70,000 (2002 - $68,700). Our review of the Corporation's payments in relation to these services indicated the following:

- The Corporation did not call for proposals for these services. We were informed that most of these agents had been used by the Corporation for many years.

- The Corporation could not provide current signed contracts for any of these agents which would specify their role, responsibilities and accountabilities.

4. Engineering Services

The Corporation utilizes the services of only one engineering firm to assist in the management of the Corporation's capital construction and renovation projects. In recent years this has included the renovations to the Corporate headquarters. For the fiscal year ending 31 March 2003 this firm was paid approximately $338,000 (2002 - $370,000). Our review indicated the following:

- the Corporation has not called any proposals for engineering services since this firm was engaged in the early 1980s; and

- there is no contract in place outlining the firm's areas of expertise, services to be provided, staff qualifications and billing rates.

5. Board of Directors Expenditures

Our review of expenditures relating to the Board of Directors indicated the following issues:

Liquor Provided to the Board

During the year ended 31 March 2003, Board members were provided with liquor and other alcoholic beverages having a retail value of approximately $11,500 (2002 - $7,700). Included in the liquor and other alcoholic beverages provided to the Board members in 2003 were such items as:

Brand	Quantity	Retail Value	Total
Dom Perignon	8	$160.43	$1,283.44
Sassicaria	6	$109.53	$657.18
Chateau Mouton Rothschild	3	$153.25	$459.75
Penfold's Bin 95 Grange	2	$197.14	$394.28
Casa Lapost. Clos Apoltla	4	$70.26	$281.04
Wolfblass Platinum	4	$64.99	$259.96
Antinori Salaia 1997	2	$91.77	$183.54
Mouton Rothschild 89	1	$165.35	$165.35

We were informed that the Board is provided with liquor and alcoholic beverages for several reasons - tasting purposes, for its annual Christmas party, and a Christmas package of these products provided to each Board member. However, officials at the Corporation could not provide any details as to the quantities applicable to each category.

Providing liquor or other alcoholic beverages to Board members as a Christmas present is not consistent with Government's policy for remuneration for Board members. Furthermore, given that a lot of the premium brands outlined above are already stocked by the Corporation, there is no requirement that they be taste tested. We were informed that Board members are not directly involved in the identification of products to be listed by the Corporation. It is most likely, therefore, that the products were provided directly to the Board members.

Board Per Diems

The Corporation has adopted Government's policy for the payment of per diem fees to its Board members. This policy states that "*Payments are to be made for time spent at formal meetings or hearings of the Board, Commission or Agency; Payments will not be made for incidental meetings or activities which precede or follow meetings of the Board, Commission or Agency. The per diem rates incorporate such meetings.*" Furthermore, the policy states that "*Payment shall not be made for activities such as review of agenda, gathering information or activities which would be normally anticipated for meeting. The per diem rates incorporate such activities.*" Our review of payments to Board members indicated the following:

The Chairperson of the Board received a total of $31,920 during the period 13 March 2000 to 31 March 2003. There were a total of five billings - $9,880 (9 November 2001), $5,510 (27 November 2002), $3,705 (29 November 2002), $11,210 (28 February 2003), and $1,615 (31 March 2003). The $31,920 represents 168 days at $190 per day. Our review of these billings indicated the following:

- The invoices did not clearly show the amount of time associated with various activities claimed. For example, the billing for $11,210 in February 2003 had identified 81 activities; however, there was no time associated with each activity, instead, at the end of the billing there was a charge for 59 days.

- Our review of five invoices submitted indicated that 111 of the 168 days totaling $21,090 related to activities that would be claimable under the guidelines. However, the remaining 57 days totaling $10,830 were paid contrary to the guidelines. These ineligible activities included such items as telephone conversations with officials, meeting with officials, and receipt and review of correspondence.

6. Travel and Entertainment Expenses

The Corporation generally follows the travel and entertainment policies of Government. Our review of a sample of travel claims for the period August 2000 to March 2003 indicated that, with the exception of issues identified in travel claims submitted by the President and Chief of Operations outlined below, travel claims for the most part were in accordance with policies. These issues are as follows:

2.14 Newfoundland and Labrador Liquor Corporation

President's Travel Claims

- The Corporation's President submitted claims for entertainment expenses totalling approximately $25,100. Of this amount, $19,900 did not have sufficient information to demonstrate that the expenses were for Corporation business in that neither the details of who the President was conducting business with nor the purpose of the meetings were noted. Furthermore, in most instances, the expense was not supported by an invoice, instead a credit card slip or statement was provided. For example, included in the $19,900 is an entertainment expense of $820 claimed by the President to attend an unspecified event in New York City. Only a credit card statement was used as support for the expense and as a result there was insufficient documentation as to who attended the event.

- The President claimed private vehicle mileage totalling $528 without sufficient documentation as to the number of trips, the purpose of each trip, and the actual mileage incurred.

- In the past two years the Corporation paid delinquency credit card charges totalling $394.

- Although it's travel policy does not provide for claims for spouses to travel or attend any function, the Corporation paid travel costs of approximately $1,932 for the spouse of the President to attend a wine show in New York City and also paid for various conference registration fees for this spouse. The Corporation was reimbursed an amount of $990 relating to the cost of the airline ticket.

Chief of Operations

- The Chief of Operations submitted claims for entertainment expenses totaling approximately $8,400. Sufficient information was not available to demonstrate that any of these expenses were for Corporation business in that neither the details of who the Chief of Operations was conducting business with nor the purpose of the meetings were noted. Furthermore, in most instances, the expense was not supported by an invoice, instead a credit card slip was provided.

7. Head Office Renovations

On 15 June 2001 the Corporation received a preliminary construction cost estimate from its engineering consultant for the renovations to its Head Office building. The preliminary cost estimate indicated that the renovations would total $2.45 million and were expected to be completed by August 2002. Corporation officials indicated that during the renovations, it was identified that the brick on the front of the building and the roof had to be replaced. This work was tendered at a cost of $543,774. As a result, total renovation costs were estimated to be approximately $3.0 million and to be completed by June 2004.

As of 18 November 2003, the renovations were still ongoing, actual costs totalled approximately $2.57 million and Corporation officials indicated that the renovations are now expected to be completed on schedule at an expected cost of approximately $3.14 million.

We were informed that the Board did not approve an overall plan to renovate it's Head Office. Instead, the Board approved, as part of the Corporation's annual budget process, the portion of the renovation costs that were expected to be incurred during a given year. In addition, based on a review of the Board minutes, there was limited information provided to the Board regarding the progress of the Head Office renovations and the related costs.

Considering the significant cost and time spent on the renovations, we would have expected that an overall plan would have been provided to and approved by the Board, including the related cost and time frame for completion of the renovations. In addition, this information could have been used by the Board to monitor the progress of the project against the original estimated cost and completion date.

Head Office Building - Kenmount Road, St. John's

2.14 Newfoundland and Labrador Liquor Corporation

Expenditures

(a) Purchases

In addition to the public tender issues identified in this report, the Corporation spent a significant amount of public money on several purchases which could be considered as being excessive. The details are outlined as follows:

- In August 2002, the Corporation awarded a contract valued at $69,720 for the provision of furniture for the Corporation's Head Office. Subsequent to the awarding of the contract, a change order for $53,221 i.e. 77% of the original contract was issued. Details of the original contract and the change order are outlined in Figure 4.

Figure 4

Newfoundland and Labrador Liquor Corporation
Furniture Purchases
Head Office

Location	Original Contract	Change Order	Total Cost
President's Office	$13,124	$17,822	$30,946
Vice-Presidents' Offices (4)	29,168	11,565	40,733
Secretaries (2)	5,576	17,182	22,758
Board Room	5,680	-	5,680
Miscellaneous	16,172	6,652	22,824
Total	$69,720	$53,221	$122,941

- In March 2002, the Corporation purchased audio visual equipment costing approximately $180,000 for its board room and a nearby training room. Officials indicated that the equipment was "high end" and that it was similar to equipment owned locally by a major oil company.

- In September 2002, the Corporation paid $1,104 for 12 leather place mats, 4 rectangular mats and coasters for its Boardroom table. In this case the Corporation did not accept the lowest quote of $1,015 as officials indicated that the Corporation preferred the quality of the higher bid.

Head Office Board Room - Kenmount Road, St. John's

(b) Spousal Travel

Although it's travel policy does not provide for claims for spouses to travel or attend any function, the Corporation paid travel costs of approximately $1,620 for the spouse of the Chair of the Board of Directors to attend a wine show in New York City and also paid for various conference registration fees for this spouse as well as the spouse of the Director of Enforcement.

Agency Stores

Agency stores are private sector businesses which sell alcoholic beverages on behalf of the Corporation. Agency stores are established in one of three ways - through the privatization of a Corporation retail store, by the opening of a new agency store in an area resulting from formal requests or market demand, or by a change in ownership of a previous agency store.

The Corporation has a process for establishing an agency store. There are 3 regional managers who are responsible to review market conditions and determine whether an agency store is needed in their region. If the Board agrees that there is a need for an agency store, the Corporation advertises for proposals. When proposals are received, they are reviewed by the area's regional manager plus another regional manager and the Corporation's internal audit group. This review includes a check of references for each proponent. The proposals are evaluated against established criteria by these officials and the information is provided to the Board of Directors for final approval by the Minister of Finance. Agency store contracts are normally for a 5 year period with an additional renewals of up to 5 years each.

As part of our review, we selected 14 of the 44 competition files for agency stores approved during the period 1 April 1999 to 31 May 2002. Our review indicated that controls over the selection of these agency stores are not adequate as follows:

- Although the proposals relating to agency stores are reviewed by two regional managers and the Corporation's internal audit group, we were informed by officials that they were directed not to make any recommendation to the Board of Directors as to the ranking of each bid and which bid Corporation officials felt was the most appropriate based on the analysis completed.

  Instead, the Board is provided with information on all applicants and the financial analysis that results from the review process, and it makes a decision based on this information which is then forwarded to the Minister of Finance for final approval. The reasons for the Board's selection are not documented.

  This results in a selection process which is not transparent and is not based on an objective assessment of how each applicant meets qualifying criteria.

- At the time of our review, there were no signed contracts in place for 36 of the 44 agency store files. In 26 instances, existing agency operations whose contracts expired in March 2002 did not have a new signed contract in place extending the term of the agency, and in the remaining 10 instances, new agency stores which had opened between September 1999 and August 2002 did not have a signed contract in place. Subsequent to our inquiries, such contracts were drafted.

- In one of the 14 instances, Corporation staff were unable to locate the file relating to an agency store competition.

- In one of the 14 instances, Corporation staff did not complete the required reference checks for the applicant awarded the agency store contract.

2.14 Newfoundland and Labrador Liquor Corporation

Annual Report

Each year the Corporation prepares an annual report for the Minister of Finance. In accordance with Guidelines issued by Treasury Board for Government agencies, the Corporation is required to clearly outline its annual objectives which flow from its strategic and annual business plans. The Corporation is also required to report on its performance in relation to each of these objectives.

Our review of the Corporation's 2002 annual report indicated that it did not contain information on its performance in relation to its original approved plan and objectives. Instead, the report was more of a summary of what was completed under each of several categories.

Recommendations

The Corporation should:

- *continue with its efforts to implement its point of sale system to assist in establishing appropriate inventory levels;*
- *not spend public monies on items that could be seen a being excessive and develop a process to more precisely plan and monitor the costs and timing of renovation projects;*
- *comply with the* Public Tender Act *in the acquisition of goods and services;*
- *call for public proposals for all professional services and establish a process to support the selection of the best proposal;*
- *ensure that it has signed contracts in place with all companies providing services to the Corporation. These contracts should outline the roles, responsibilities and accountabilities of these companies;*
- *complete a cost-benefit analysis to determine whether the Corporate Box at Mile One Stadium should be kept. If it is determined that the Box should be kept, records should be maintained to indicate specifically who attends events;*
- *ensure the selection process for agency stores is transparent and based on an objective assessment of how each applicant meets qualifying criteria;*

- *conduct market studies or otherwise make use of a defined process to analyze the need for new retail stores;*
- *ensure that all payments relating to leases are in accordance with the terms and conditions outlined in the successful tender;*
- *ensure that all claims submitted for payment are supported by appropriate documentation and that the items claimed are eligible under the Corporation's policy;*
- *ensure that remuneration of Board members is in accordance with Corporation policy; and*
- *ensure its annual reports contain information on the performance of the Corporation in relation to its original approved plan and objectives.*

Corporation's Response

General

The past three years have been marked by significant change overall at the Newfoundland and Labrador Liquor Corporation (NLLC). The Corporation has followed an aggressive agenda of change in an attempt to move forward as a modern, customer-oriented retailer. As part of this change, the NLLC has invested time and resources in the implementation of a Point of Sale System (POS) and in the active promotion of local product, particularly throughout Canada and the U.S. In addition NLLC has been active in modernizing a number of retail locations together with its head office building on Kenmount Road. These efforts are part of the Corporation's goals and objectives as outlined in the Strategic Plan developed in 1999. That plan was implemented in 2000 and extends out to 2005. In addition to the Strategic Plan, the NLLC has developed a Corporate Business Plan to assist in achieving the goals and objectives identified in the Strategic Plan.

The Corporation has reviewed in detail the draft report of the Auditor General. The Corporation acknowledges and accepts the deficiencies noted by the Auditor General. In future the Corporation will make every effort to ensure compliance with government and corporate guidelines, policy and practice.

Inventory

The Corporation has identified inventory control and improvement of turnover performance as a major focus for the organization's operations. As noted in the Auditor General's Report, the implementation of the Point-of-Sale system and the introduction of the Supply Chain Management system will provide management with the tools to achieve significant improvements in this area.

1) Compliance with the Public Tender Act

Security Guard Service

In the past, NLLC has spent approximately $20,000 annually on security services. For the period 2001 -2003 this was increased, on a temporary basis, to accommodate renovations to NLLC's head office building and the on-going Point of Sale project (POS). When NLLC ascertained that additional security services would be required during these projects, a verbal check was performed and the hourly rate of the existing security company was confirmed as the lowest. The current service was thus maintained. The cost of security services is expected to return to the low $20,000 range in the near future.

Armored Car Service

The reporting of sole source to the Minister was the result of an error. The wrong form was inadvertently completed and forwarded to the Minister's office.

Freight Transportation From Suppliers in Canada and US to NLLC

Quotes were invited from six major companies having the capability to move NLLC product in the quantities and timeframes required. No one company was awarded the full contract as the Corporation requires flexibility to choose alternate routes as the need arises.

Of the six companies canvassed, one declined to provide a quote and the remaining five submitted bids. Of the five bids submitted, two were eliminated as the rates were higher than the remaining three. The work was thus distributed among the three remaining companies.

2.14 Newfoundland and Labrador Liquor Corporation

Freight Transportation from Corporation to mainland Canada

Backhaul freight was not considered a separate contract but rather part of the main contract. As is often the case, backhaul rates are lower when two-way rates are considered. Efforts will be made to bring this practice into compliance.

Wooden wine islands

In the past, NLLC has awarded the construction of wooden wine islands based on lowest cost proposals. Unfortunately, the resulting finished product was not up to the quality expected. When new wine islands were required, a public tender advertisement was placed in the newspapers requesting millwork fabrication companies to submit information for evaluation in order to qualify for the anticipated millwork tender. All companies that responded were evaluated and deemed qualified and each company was requested to submit a tender price. This request was by invitation only and three companies submitted proposals. NLLC acknowledges that the bids were not opened publicly and this will be remedied in the future.

Sole Sourced Contract

NLLC inadvertently omitted to submit Form B to the Minister of Works Services and Transportation. In future, the Corporation will work to ensure the appropriate paper work is completed and submitted.

Change Orders

The authority to sign change orders has been delegated verbally within the Corporation for many years. However, measures are being taken and protocol is being established that ensures proper approval for all change orders or the issuance of a new tender call.

2) Corporate Retail Stores

The Corporation continually monitors developments in the retail market in the province and closely followed the expansion of the commercial activity in the Stavanger Drive, St. John's & Pearlgate, Mount Pearl commercial areas. The calling for tenders in those two areas was in response to the tremendous concentration of consumer traffic that was being generated by the presence of major anchor stores as well as discussions between Corporation officials and members of the alcohol beverage industry within the province. The demonstrated success of the Corporation's Avalon & Village Mall stores in recording incremental sales from pre-existing traffic rather than relying simply on customers *attracted to a liquor store, as well as the success recorded through this approach by other provincial liquor boards, supported this market approach. Current monitoring indicates that sales at these locations have been in addition to sales achieved in prior years.*

NLLC acknowledges overpayment on the Stavanger Drive, Pearlgate Plaza and Stephenville store leases. This has been corrected and overpayments will be recovered.

As to the sale of the Corporation's retail store at Stephenville and the lease of new retail space, the Corporation was desirous of maximizing the value of the two initiatives. As noted in the Corporation's letter of May 25, 2000 cancelling the initial tender "the Corporation has done so after an evaluation of the bids submitted and in light of potential ambiguities in the wording of the original invitations to tender and the related tender specifications." The Corporation further noted that "the Corporation has decided to cancel the above-captioned tenders in order to ensure a fair bidding and evaluation process for all interested bidders."

3) Marketing Expenditures

Marketing Campaigns

The Corporation has dealt with and continues to deal with a number of marketing companies in developing its promotional campaigns. Its major in-store initiative for 2002-2003 was given to a single company to allow joint development of creative material and the introduction of a promotional campaign that would provide continuity and familiarity to customers through the use of a central thematic approach with a seasonal sales focus. The Corporation will be attentive to ensuring a more compliant approach in establishing a marketing agent for the next fiscal year.

Mile One Stadium Corporate Box

Prior to Mile One Stadium, NLLC was spending approximately $11,000 annually for rink board advertising, the purchase of tickets and local product promotions at the old Memorial Stadium. Mile One representatives advised NLLC that the value of similar advertising in the new stadium would be approximately $20,000 annually; however, such advertising was available only as part of a Corporate box and was included in the cost of such box. NLLC opted for participation as a Bronze Partner which entitled the Corporation to rink board advertising, program/yearbook advertising, concourse advertising, souvenir program advertising, a corporate box, tickets to the events and web-site recognition.

NLLC purchased the corporate box in late spring 2001. It should be noted that combined, NLLC brands have experienced a nine litre case sales growth of 34 per cent in the last three years.

In assessing the corporate box, NLLC considered a number of factors. These included the opportunity to promote local product, enhancement of the corporate image, making a contribution to the local community and highlighting social responsibility. It is noted that the box is regularly donated to charitable and other community groups.

Of the 108 events attended in the 2001-2002 and 2002-2003 fiscal years 85 events were used for marketing, corporate branding and social responsibility purposes. Twenty-three events were attended exclusively by NLLC staff and officials. In one such case, NLLC held a sales incentive competition within its retail network promoting the sale of local product. The store with the highest increase in sales of local product over a given period earned the opportunity to attend a hockey game in the Corporate box inclusive of travel costs.

The Corporation intends a full review of its marketing strategy as relates to the acquisition of the Corporate Box.

Sales Agents

Provincial Sales Agents

The Corporation called for proposals for the current provincial sales agent under a contract that expired in March 1999. The Corporation continued with this sales agent as statistics demonstrated growth in the local product market and it was felt that the Corporation would be best served by continuing this working relationship. Steps are being taken to ensure a contract is in place. The Corporation's product portfolio at this time does not justify a dedicated sales agent and a single individual cannot adequately cover the target markets.

National Sales Agents

Sales agents in other provinces are selected on the basis of the Corporation's familiarity with those markets, the review of potential agents performance with other liquor boards, and the availability of and interest expressed by prospective agents. Because the Corporation's national brand portfolio and sales have in the past been limited, the selection of a sales agent in markets outside the province has been challenging. The appointment of a national sales agent was seen to be an opportunity to find an individual with a strong industry background that could define and monitor the activities and performances of agents across

Canada. This is done in conjunction with representatives of NLLC who are involved in the development and marketing of the corporation's local products. Expansion in markets in the United States and Canada is currently underway and the Corporation is in the process of finalizing a contract with this national sales agent. NLLC expects this contract will be signed shortly.

4) Engineering Services

The Corporation has verified that professional engineering and design fees were charged in accordance with a published rate schedule and that the firm currently used by the Corporation provides a wide range of services to the Corporation at those established prices. With price differentials no longer a consideration in choosing between competing companies, the past performance of the engineering firm and the benefits of their experience in dealing with the Corporation's requirements, became the primary factors in the decision to continue this arrangement. Efforts will be made to ensure compliance in the future.

5) Board of Directors Expenditures

Liquor Provided to Board Members

Liquor and alcoholic beverages are provided as gifts to the Board of Directors at Christmas and other times throughout the year. The retail value of $11,500.00 noted by the Auditor General for year-end 2003 also includes wine and spirits served at Board functions and hospitality suites during that period. The cost to the Corporation of these products was approximately $5,200.00 in 2003 and approximately $3,600.00 in 2002. The products are often selected in an effort to introduce Board members to new or promising products and to educate the Board in the full product range. The Corporation proposes to review its policy in this regard.

Board Per Diems

The additional amount paid to the Chair over and above strict Treasury Board guidelines is approximately $3,600.00 per year. This amount is considered to be the minimum additional work undertaken by the Chair in the discharge of his duties and obligations. This work includes a more active role in policy and strategic matters and the overseeing of the majority of legal and contractual matters. It is consistent with past practice and is charged at $190.00 per day or $95.00 per half day. The additional time and charges have been undertaken and paid with the full knowledge of the Board of Directors. In light of the comments of the Auditor General the Corporation intends a review of matters relating to Board remuneration.

6) *Travel and Entertainment Expenses*

President's Travel Claims

The Corporation acknowledges that the President's claim for entertainment expenses of approximately $19,900 over three years does not contain the level of detail contemplated by the guidelines. This issue has been raised with the Board of Directors. The Board fully endorses the Corporation's marketing efforts and strategy and is satisfied that the expenses properly relate to Corporation business. Again, the Corporation will ensure compliance on a go forward basis.

The President has been reimbursed by the Corporation for 10 per cent of his personal vehicle mileage per month. The Corporation views this as a fair vehicle allowance and notes that this is in lieu of a corporate vehicle.

The President paid the Corporation for the cost of his spouse's airfare in advance of the Corporation being invoiced for same. Therefore the Corporation did not in fact incur the said expense. Further, it should be noted that the New York event did not have a spousal registration fee.

During 2001/02, NLLC's President was the incoming President of CALJ and during 2002/03, he acted as the CALJ President. In such capacity, NLLC's President was tasked with additional CALJ duties that necessitated his attendance at a number of CALJ events/meetings and representation at meetings of the National Alcohol Beverage Control Association in the United States. At these meetings there was a spousal agenda with associated spousal fees that ranged between $100 and $150. These fees were paid by NLLC as has been the Corporation's standing practice.

7) *Head Office Renovations*

Monitoring and control

The Auditor General's Report concludes that renovations to NLLC's head office at Kenmount Road were not completed on time or within original cost estimates. The history of the project is as follows. In May 2001 a presentation was made to the Board of Directors by the Corporation's executive and the Corporation's engineering consultants. Renovations were projected at $2.45 million over five (5) phases with an expected completion date of August 2002. The Board approved as part of the Corporation's annual budget process, the portion of the renovation costs that was scheduled for a given year. The initial 5-phase project came within original cost estimates and was largely completed by November 2003. As of that date $2.26 million had been spent. This included a *number of unforeseen problems and expenditures including: (1) removal of asbestos, (2) extension of concrete floor, (3) replacement of plumbing, valves and floor drains, (4) upgrade to fire alarm, sealing of existing ducts and new electrical panel, (5) reinforcement of concrete pre-cast panels. Any delay was occasioned by the problems noted above and the need to address a new facade and roof as described below.*

The initial 5-phase project did not include a new facade or re-roofing of the building. These were not considered necessary at the time. In the course of renovations, however, significant problems were identified with the brickwork on the front of the building and the existing pre-cast panels. Indeed one pre-cast panel fell clear and crashed into the base of the building. On further examination it was determined that the front of the building would have to be redone. At the same time a decision was made to replace the roof due to persistent leaks. Both these initiatives were the subject of separate unrelated tenders at a cost of $543,774. It is noted that it is largely this work that has proceeded through 2003 and scheduled for completion in 2004.

The Auditor General's staff have been advised that NLLC officials disagree with the $3.14 million figure.

Expenditures

a) Purchases

Additional furniture was necessitated by the creation of a further office in the executive area as well as an additional secretarial station. To ensure similar quality and price it was felt that the Corporation should stay with the original tender. This also served to avoid further delays in the project and additional cost overruns.

The Auditor General's draft report references audio visual equipment that was purchased for the Corporation's boardroom and its training room. This equipment was purchased to accommodate the Corporation's training requirements and is utilized approximately 3 days per week. NLLC has been quoted on the rental of such equipment at a cost of $2,500 -$3,500 per day per location depending on the level of equipment required. In addition to this rental fee, NLLC would have incurred the cost of technical set-up, delivery and technical assistance. Due to the Corporation's requirements over the long-term, the cost of purchasing this equipment was deemed more cost effective.

b) Spousal Travel

The amount paid by the Corporation for the Chair's spouse to travel to a wine show in New York City was $990.35 for airfare. This was with the knowledge of the Board of Directors and has since been formally approved by the Board of Directors. The only registration fees paid by the Corporation for the Chair's spouse were in respect of a 'spousal registration program' at two CALJ meetings at a cost of approximately $100.00 each. The Corporation notes that it has adopted Government's recent policy in respect of spousal travel.

With respect to the spouse of the Director of Enforcement, neither the Director or his spouse attended the show in New York rather these individuals attended the CALJ meetings whereby there was a spousal registration program at a cost of approximately $100.00.

Agency Stores

While there had been a period of time when the Regional Managers provided a neutral report on agency store competitions, for the past several years the Regional Managers have reverted to the long standing policy of supplying specific recommendations based on their field interviews. These recommendations are reviewed by the senior executive in the operations area before being presented to and discussed with the President who in turn brings a recommendation forward to the Board of Directors for approval and subsequent submission to the Minister.

Annual Report

In January/February 2002 NLLC conducted its first extensive business planning session. The resulting finalized business plan was for the fiscal year beginning April 1, 2002. The annual report produced for the 2001-2002 fiscal year was in line with previous annual reports of the Corporation. The business year of 2002-2003 will be the first annual report by which the business plan can be measured.

Appendix 1

Newfoundland and Labrador Liquor Corporation
Expenditures Reviewed for Compliance with the *Public Tender Act*

Capital Projects

	Contractor	Description	Contract Value	Change Orders	Total	Total Expenditures
1	Eastern Contracting Ltd.	Exterior Link from Head Office to O'Leary Avenue	235,913	29,817	265,730	265,730
2	AMD Holdings	Renovations to Head Office Lobby	219,913	26,799	246,712	246,712
3	Redwood Construction	Extension to Head Office Building	401,285	36,966	438,251	429,556
4	Weir's Construction	Pave Access Road - Head Office to O'Leary Ave.	78,940	3,332	82,272	82,272
5	Emery Construction	Renovations to Head Office Building	726,087	68,002	794,089	794,089
6	Emery Construction	Renovations to Head Office Building	332,087	125,521	457,608	304,085
7	Lyn/Gor Development	Renovations to Kenmount Rd. Outlet and Head Office Bldg.	416,287	17,978	434,265	255,169
8	Eastern Contracting	Extension to Head Office Building	387,545	0	387,545	61,888
9	Atlantic Business Interiors	Office Furniture for Head Office, Executive Offices	69,720	53,221	122,941	122,941
10	Eastern Contracting	Emergency Generator for O'Leary Avenue Warehouse	59,043	0	59,043	50,648
11	CIR Management	New Loading Docks for O'Leary Avenue.	161,500	15,243	176,743	141,644
12	Team Mechanical	Air Conditioning for O'Leary Avenue Warehouse	506,326	56,349	562,675	556,174
13	Magna Contracting	Renovations to Elizabeth Avenue Store	441,739	41,247	482,986	482,986
14	Classic Woodworking	Prefabricated wine islands for all stores	550,025	0	550,025	39,602
		Total capital projects	**4,586,410**	**332,371**	**4,918,781**	**3,833,496**

2.14 Newfoundland and Labrador Liquor Corporation

	Contractor	Description	Contract Value	Change Orders	Total	Total Expenditures
	Freight					
15	J.F. Hillerbrand	International Transportation	0	0	0	769,000
16	Various suppliers	Other Transportation	0	0	0	1,992,847
	Security Services					
17	Shannahan's Security and Investigation	Security Services	0	0	0	30,029
18	Brinks Canada	Armoured Car Services	57,357	0	57,357	57,357
	Leases					
19	Loblaw Properties	St. John's	76,875	0	76,875	76,875
20	Loblaw Properties	Mount Pearl	76,875	0	76,875	76,875
21	Loblaw Properties	Stephenville	58,858	0	58,858	58,858
	Other					
22	Avalon Ford Sales (1996) Ltd.	Automobile	21,089	0	21,089	21,089

Source: Corporation Records

Note: Amounts shown for Freight, Security Services and Leases represent payments for the year ended 31 March 2003. Amounts shown for Capital Projects and Other represent payments as of 31 March 2003.

2.15 Province of Newfoundland and Labrador Pooled Pension Fund

Introduction

The Province of Newfoundland and Labrador sponsors defined benefit pension plans for its full-time employees and those of its agencies, boards and commissions, and for members of its Legislature. These plans include the Public Service Pension Plan (PSPP), the Teachers' Pension Plan (TPP), the Uniformed Services Pension Plan (USPP) and the Members of the House of Assembly Pension Plan (MHAPP).

On 1 July 1980, the Province of Newfoundland and Labrador Pooled Pension Fund was created under the authority of the *Pensions Funding Act* for the purpose of providing for the funding of pension plans sponsored by the Province. In accordance with the *Act*, the Fund is held in trust by the Minister of Finance.

The pension plans provide for pensions based on employees' length of service and highest average earnings. Employees contribute a defined percentage of their salary, and the employer generally matches this amount. During the year ended 31 December 2002, there were approximately 32,000 active members contributing to the Province of Newfoundland and Labrador Pooled Pension Fund (the Fund) and 17,300 pensioners receiving pension benefits from the Fund. The unfunded pension liability at 31 March 2003, Government's fiscal year end, was $3.56 billion. Information on the number of active members, pensioners and the unfunded pension liability are outlined in Figure 1.

Figure 1

Active Members, Pensioners, and Unfunded Pension Liability

Plan	Active Members*	Pensioners*	Unfunded Liability (Millions)
PSPP	25,015	10,733	$1,492.7
TPP	6,379	5,915	1,840.5
USPP	627	527	185.3
MHAPP	48	98	38.3
Total	32,069	17,273	$3,556.8

Sources: 2003 Province of Newfoundland and Labrador Public Accounts
* Department of Finance as at 31 December 2002

2.15 Province of Newfoundland and Labrador Pooled Pension Fund

Scope and Objectives

We completed our review of the Province of Newfoundland and Labrador Pooled Pension Fund in October 2003 to determine changes in the unfunded pension liability and how the Pension Investment Committee monitors activities of the Fund.

Conclusions

The Province of Newfoundland and Labrador Pooled Pension Fund (the Fund) was created on 1 July 1980 under the authority of the *Pensions Funding Act* for the purpose of providing for the funding of the pension plans sponsored by the Province.

Pension Investment Committee and Newvest Realty Corporation

The Pension Investment Committee decided it would create an entity to administer up to $200 million in real estate, comprised of a maximum of $100 million from the Pension Fund, and a maximum of $100 million in mortgages. As a result, Newvest Realty Corporation was formed. The Committee has contracted with Penreal Capital Management Limited Partnership of Ontario to manage the real estate activities.

Newvest, to August 2003, has acquired real estate costing $77.59 million. Our review of the Committee's involvement in directing and controlling the real estate activities of Newvest indicated the following:

- The Pension Investment Committee does not require an independent external appraisal prior to the acquisition of real estate property. It does; however, require an appraisal by an external appraiser at least once every two years subsequent to acquisition. At the time we completed our review, the two year limit had not been reached, therefore, no such appraisals were completed. In addition, neither the Committee nor the Pensions Division of the Department of Finance have visited any of the real estate properties.

- During our financial statement audit of Newvest Realty Corporation, we identified several operational issues which were reported to the Committee. The Committee was not aware of these issues prior to our work.

Our review also indicated that Government's Newvest Realty Corporation, a wholly owned subsidiary of the Province of Newfoundland and Labrador Pooled Pension Fund, contravened the *Financial Administration Act* by borrowing without legislative authority. This resulted from the Corporation financing real estate purchases for four properties through mortgages totalling $46.62 million.

Pension Plan Deficiencies

Even though Government has committed substantial annual special payments to address pension funding issues ($163.5 million for 2003-04), two of the pension plans will be depleted of assets and require deficiency payments. The Uniformed Services Pension Plan will be the first affected in 2013-14 and will require annual deficiency payments estimated to be approximately $17 million while the Teachers' Pension Plan will require annual deficiency payments commencing in 2015-16 which are estimated to be approximately $200 million. These deficiency payments are in addition to the $60 million annual special payments for the Public Service Pension Plan estimated by the actuary to be required until at least 2031.

Changes in the Unfunded Pension Liability During the Year

The unfunded pension liability represents a significant debt for Government and at 31 March 2003 totalled $3.56 billion. This represents an increase of $164 million or 4.8% from the $3.39 billion balance as at 31 March 2002. The unfunded pension liability is comprised of the accumulated difference between pension contributions received and pension benefits paid, together with the impact of the Fund's investment activity and any actuarial changes. Although Government has taken some action to address the unfunded pension liability, the liability continues to increase.

Our review of the change in the unfunded pension liability indicated the following:

- During the year, the Fund reported significant decreases in the actuarial value of its assets ($430 million) and a significant increase in the value of its estimated accrued benefit obligation ($748 million). This resulted in an increase of $1.18 billion in the net pension liability. For financial statement purposes and in accordance with Canadian generally accepted accounting principles, $1.01 billion of the increase is reflected in the change in the unamortized gains and losses between the two years, the balance of which is amortized over the expected average remaining service life of plan members. As a result, the unfunded pension liability only increased by $164 million since 2002.

- With the exception of the Members of the House of Assembly Pension Plan, pension contributions by active members of the plans, together with matching employer contributions, are sufficient to meet current service costs. However, these contributions are not sufficient to meet the pensions costs of individuals who retired prior to the Fund being established.

- The number of pensioners is steadily increasing while the number of active members contributing to the Fund has remained relatively constant. As a result, pension benefits are increasing at a much higher rate than pension contributions. For 2002, pension benefits of $296 million exceeded total contributions of $202 million, excluding special payments of $144 million, by $94 million (or 47%).

- In 1998, Government started to make special payments into the Fund with a view to reducing the unfunded pension liability. Since that time Government has made special payments totalling approximately $840 million. However, these payments are not large enough to reduce the unfunded pension liability - in fact, the unfunded liability over that time increased by over $200 million.

- Interest costs on the unfunded pension liability have increased from $171 million in 1994 to $270 million in 2003, an increase of $99 million (or 58%).

- Over the last two years the Fund, similar to many other large pension funds in Canada, has suffered significant losses on its investments. For the year ended 31 December 2002, the Fund recorded a loss of $73 million on the sale of investments and also recorded a decline of $179 million in the market value of investments held at year end.

Findings and Recommendations

Background

Prior to 1967, public service salaries and pension benefits were paid under the authority of the *Civil Service Act*. Under that legislation there were no employee or employer contributions to a pension plan and pension benefits were paid out of the Consolidated Revenue Fund. In 1967, legislation was enacted which required that employees contribute to a pension plan. Employees' pension premiums were paid into the Consolidated Revenue Fund forming part of Government's overall revenues, and pension benefits continued to be paid out of the Consolidated Revenue Fund as a Government expenditure.

In 1980, the Province of Newfoundland and Labrador Pooled Pension Fund (the Fund) was established and both employee and employer pension premium contributions were required to be paid into the Fund. Subsequent to the establishment of the Fund, pension benefits were paid by the Fund irrespective of whether the employee had previously contributed pension premiums to it.

2.15 Province of Newfoundland and Labrador Pooled Pension Fund

At 31 December 2002, the Province of Newfoundland and Labrador Pooled Pension Fund was comprised of four pension plans: the Public Service Pension Plan, the Teachers' Pension Plan, the Uniformed Services Pension Plan, and the Members of the House of Assembly Pension Plan. All employee and employer contributions are deposited into the Fund and pension benefits to plan members and other pension payments are made from the Fund.

Pension Investment Committee and Newvest Realty Corporation

The Pension Investment Committee decided it would create an entity to administer up to $200 million in real estate, comprised of a maximum of $100 million from the Pension Fund, and a maximum of $100 million in mortgages. As a result, Newvest Realty Corporation was formed. The Committee has contracted with Penreal Capital Management Limited Partnership of Ontario to manage the real estate activities.

Newvest, to August 2003, has acquired real estate costing $77.59 million. Our review of the Committee's involvement in directing and controlling the real estate activities of Newvest indicated the following:

- While the Corporation's policy is to have income producing properties appraised by an external appraiser at least once every two years subsequent to acquisition, there is no requirement to have properties appraised prior to acquisition. This exposes the Corporation to unnecessary risk of losses as the condition and value of the properties are not confirmed by an independent appraisal prior to being purchased. At the time we completed our review, the two year limit had not been reached, therefore, no such appraisals were completed. In addition, neither the Committee nor the Pensions Division of the Department of Finance have visited any of the real estate properties.

- During our financial statement audit of Newvest Realty Corporation, we identified several operational issues which were reported to the Committee. The Committee was not aware of these issues prior to our work. These included: issues relating to claims for goods and services taxes; inconsistent accounting treatment for capital improvements and repairs and maintenance expenditures; adequate security deposits not being obtained on all rented units; signed documentation to evidence that a unit is vacant was not always available; and a property management firm was paying significantly less than the rate paid by other tenants.

2.15 Province of Newfoundland and Labrador Pooled Pension Fund

Contravention of the *Financial Administration Act*

The Fund holds its real estate investments in Newvest Realty Corporation, a wholly-owned subsidiary incorporated on 9 August 2001 under the *Canada Business Corporations Act* to invest monies received from the Fund in Canadian real estate property. The Corporation is also registered under the *Corporations Act* of the Province of Newfoundland and Labrador. The Corporation has its head office in Toronto, Ontario.

The Corporation completed its first full year of operations in December 2002. As such, no trend analysis could be conducted relating to the Corporation's financial results.

Our review of the Fund's involvement with the Corporation did indicate that both the Corporation and the Fund, as the only shareholder, contravened the *Financial Administration Act* by borrowing without legislative authority. This resulted from the Corporation financing real estate purchases through mortgages totalling $46.62 million for the following four properties:

- Property located in White Rock, British Columbia purchased in April 2002, costing $8.95 million, financed through a mortgage for $4.80 million and through common shares acquired by the Fund valued at $4.15 million.

- Property located in Toronto, Ontario purchased in December 2002, costing $11.70 million, financed through a mortgage for $7.03 million and through common shares acquired by the Fund valued at $4.67 million.

- Property located in Brampton, Ontario purchased in January 2003, costing $21.24 million, financed through a mortgage for $12.99 million and through common shares acquired by the Fund valued at $8.25 million.

- Property located in Vancouver, British Columbia purchased in August 2003, costing $35.70 million, financed through a mortgage for $21.80 million and through common shares acquired by the Fund valued at $13.90 million.

2.15 Province of Newfoundland and Labrador Pooled Pension Fund

The *Financial Administration Act* states that no money shall be raised by way of loan by the Province except under the authority of the Legislature. The Fund was created under the *Pensions Funding Act* and, as a result, the operations of both the Fund and the Corporation are governed by the *Pensions Funding Act*. As neither the *Pensions Funding Act* nor any other legislation authorized the $46.62 million in borrowing, the Corporation and the Fund contravened the *Financial Administration Act*.

Pension Plan Deficiencies

In 1998 Government committed to make special payments to the Province of Newfoundland and Labrador Pooled Pension Fund to address funding issues. The amount that Government has committed to provide each year for each of the four plans is outlined in Figure 2. As the Figure shows, Government has committed to make substantial annual special payments.

Information provided by Government's actuary indicates that, even with these planned special payments, the assets currently held by two of the plans will be fully depleted. Information in Figure 2 shows that the Uniformed Services Pension Plan will require annual deficiency payments commencing in 2013-14 which are estimated to be approximately $17 million, while the Teachers' Pension Plan will require annual deficiency payments commencing in 2015-16 which are estimated to be approximately $200 million. There has been no actuarial projection on deficiency payments which may be required for the Members of the House of Assembly Pension Plan.

As this information shows, based on current actuarial valuations, the pension fund will require a significant cash contribution in order for pensioners to receive their pensions.

2.15 Province of Newfoundland and Labrador Pooled Pension Fund

Figure 2

Pension Funding
($ Millions)

Year	Special Payments				Deficiency Payments				Total Payments
	PSPP	TPP	USPP	MHAPP	PSPP	TPP	USPP	MHAPP	
2003-04	60.0	76.0	20.0	7.5	0.0	0.0	0.0	0.0	163.5
2004-05	60.0	76.0	20.0	7.5	0.0	0.0	0.0	0.0	163.5
2005-06	60.0	76.0	20.0	7.5	0.0	0.0	0.0	0.0	163.5
2006-07 to 2009-10	60.0	76.0	0.0	0.0	0.0	0.0	0.0	Not Available	136.0
2010-11	60.0	54.7	0.0	0.0	0.0	0.0	0.0		114.7
2011-12 to 2012-13	60.0	0.0	0.0	0.0	0.0	0.0	0.0		60.0
2013-14	60.0	0.0	0.0	0.0	0.0	0.0	7.0		67.0
2014-15	60.0	0.0	0.0	0.0	0.0	0.0	16.9		76.9
2015-16	60.0	0.0	0.0	0.0	0.0	120.0	17.5		197.5
2016-17 to 2031	60.0	0.0	0.0	0.0	0.0	200.0	17.5		277.5

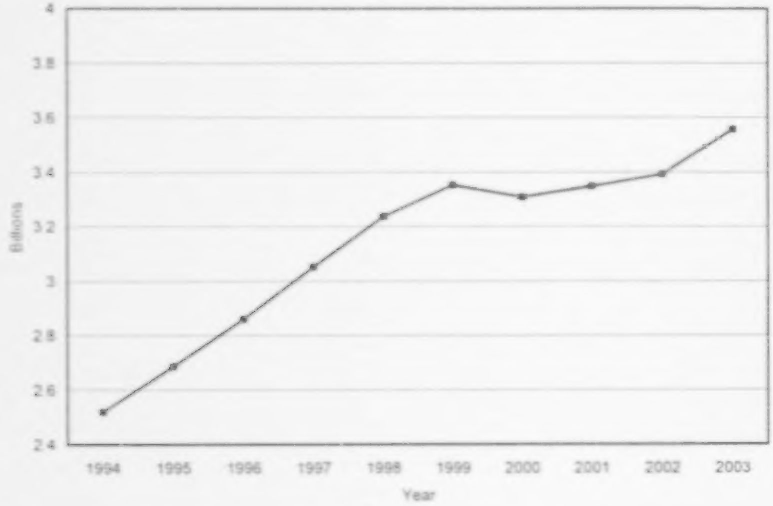
Source: Report from Government's Actuary

Changes in the Unfunded Pension Liability

The unfunded pension liability represents a significant debt for Government which at 31 March 2003 was $3.56 billion. This represents an increase of $164 million or 4.8% from the $3.39 billion balance as at 31 March 2002, and an increase of $205 million or 6.1% from the $3.35 billion balance as at 31 March 1999. The unfunded pension liability is comprised of the accumulated difference between total contributions made by the members of the four pension plans and their employers, and the pensions benefits paid, together with the impact of investment activity and any actuarial changes in pension obligations and assets held by the Fund. Information on the unfunded liability as at 31 March for the years ended 1994 to 2003 is outlined in Figure 3.

Figure 3

Consolidated Summary Financial Statements
Unfunded Pension Liability
As at 31 March
($ Billions)



Source: Province of Newfoundland and Labrador Public Accounts

The change in the unfunded pension liability is impacted by several factors including: experience losses resulting from actuarial valuations; changes in the number of active plan members and pensioners; the difference between pension benefits paid compared to employee and employer contributions received; increases in interest costs on the unfunded pension liability; losses on Fund investments; and special payments by Government.

Information on how each of these factors impact the Province's unfunded pension liability is provided as follows.

1. Experience Losses Resulting From Actuarial Valuations

The Fund's assets represent the financial resources available to pay pension benefits to current and future pensioners. On the liability side, the estimated accrued pension benefit obligation represents the value of retirement benefits attributed to services rendered by current and former employees. At any point in time, the difference between the value of the Fund's assets and the estimated accrued benefit obligation represents either a pension surplus or a pension liability.

2.15 Province of Newfoundland and Labrador Pooled Pension Fund

Both Fund assets and the accrued pension benefit obligation are based on actuarial valuations obtained by Government. These valuations result from a number of assumptions about future events, such as interest rates, wage and salary increases, inflation rates, and rates of employee turnover, disability and mortality.

The assumptions used reflect the best estimates at a point in time. As the valuations are typically completed every three years, there will always be adjustments required to reflect any changes between the assumptions made and the actual conditions which resulted, as well as the impact on these assumptions resulting from any plan amendments.

These adjustments, referred to as experience gains or losses, are included in the Province's calculation of the unfunded pension liability, and for accounting purposes are recognized over the expected average remaining service life of the plan members.

Each year, the change in the value of Fund assets and the accrued benefit obligation, plus or minus the unamortized portion of any actuarial based changes in the value of these amounts, results in the overall change in the unfunded pension liability.

The amounts comprising the unfunded pension liability for each of the previous five years ending 31 March are detailed in Figure 4.

Figure 4

Unfunded Pension Liability
31 March
($ Billions)

Component	1999	2000	2001	2002	2003
Estimated Accrued Benefit Obligation	4.77	5.02	5.36	5.63	6.38
Fund Assets	1.86	2.13	2.24	2.45	2.02
Net Pension Liability	**2.91**	**2.89**	**3.12**	**3.18**	**4.36**
Unamortized Experience Gains / (Losses)	0.44	0.42	0.23	0.21	(0.80)
Net Unfunded Liability	**3.35**	**3.31**	**3.35**	**3.39**	**3.56**

Source: Province of Newfoundland and Labrador Public Accounts

2.15 Province of Newfoundland and Labrador Pooled Pension Fund

As Figure 4 shows, at 31 March 2003 the Province's estimated accrued benefit obligation was $6.38 billion and Fund assets were $2.02 billion for a net pension liability of $4.36 billion. At 31 March 2002 this net pension liability was $3.18 billion. This represents an increase of $1.18 billion.

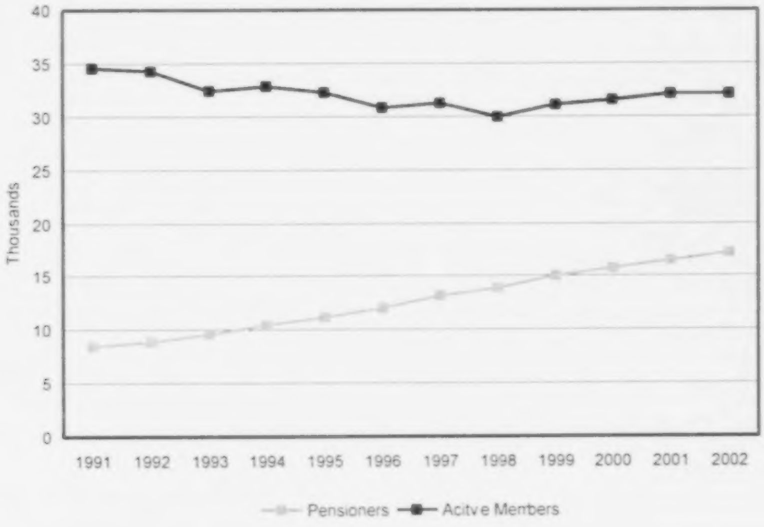
The $1.18 billion increase in the net pension liability resulted from significant decreases in the actuarial value of Fund assets ($430 million) and a significant increase in the value of its estimated accrued benefit obligation ($748 million). For financial statement purposes and in accordance with Canadian generally accepted accounting principles, $1.01 billion of the increase is reflected in the change in the unamortized experience gains and losses between the two years, the balance of which is amortized over the expected average remaining service life of plan members. As a result, the unfunded pension liability only increased by $164 million since 2002.

2. Number of Active Plan Members and Pensioners

As at 31 December 2002, there were approximately 32,000 active members of these plans and approximately 17,300 pensioners. Figure 5 provides historical data for the Fund relating to pensioners and active members for the past 12 years.

Figure 5

Population History: Pensioners and Active Members
Years Ended 31 December
(000's)



Source: Province of Newfoundland and Labrador Pooled Pension Fund

As Figure 5 shows, the number of pensioners is steadily increasing while the number of active members contributing to the Fund has remained relatively constant. This situation has an obvious impact on the Fund's ability to provide pension benefits from the contributions relating to active members.

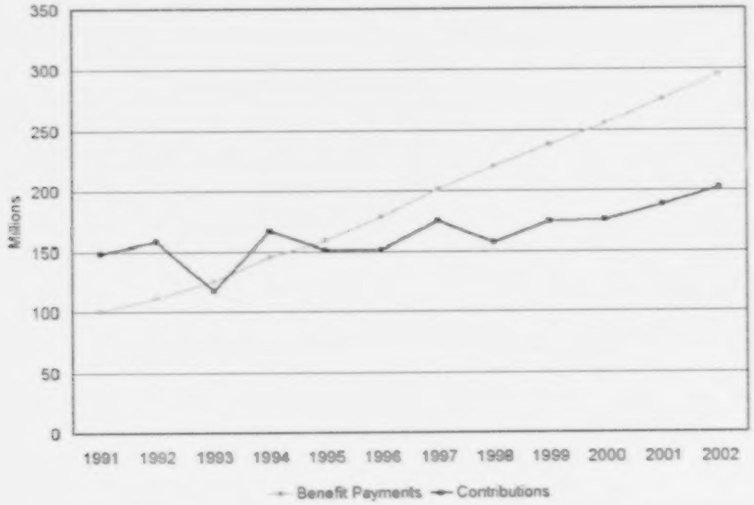
3. Pension Benefits Paid and Contributions Received

During the year ended 31 December 2002, pension benefits paid exceeded pensions contributions by $94 million (or 46.7%). For that year, the 32,000 employees, including Members of the House of Assembly, and the employer made pension contributions and other payments into the Fund totalling $346 million under the four pension plans. This included a $144 million special payment by Government in excess of matching provisions, meaning that total pension contributions by employees, Members of the House of Assembly, and matching employer contributions totalled only $202 million. During the same period, the Fund provided benefits totalling $296 million to the 17,300 pensioners.

Figure 6 provides historical data for the Fund relating to pension benefits paid and total pension contributions received, excluding special payments, for the past 12 years.

Figure 6

Pension Benefit Payments and Contributions
Years Ended 31 December
($ Millions)



Source: Audited Financial Statements of the Province of Newfoundland and Labrador Pooled Pension Fund

As Figure 6 shows, pension benefits are increasing at a much higher rate than pension contributions. For example, from 1991 to 2002, pension benefits have increased by $196 million, from $100 million in 1991 to $296 million in 2002 (an increase of 196%), while total pension contributions, excluding special payments, have increased by only $54 million, from $148 million in 1991 to $202 million in 2002 (an increase of only 36%).

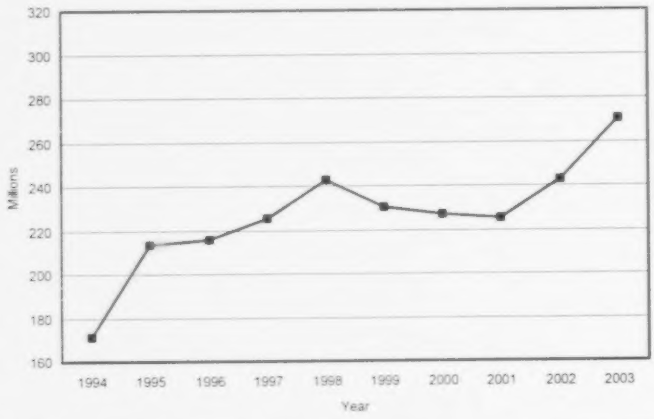
Our review of the most recent actuarial valuations of the Province's four pension plans confirms this finding. The valuations indicate that with the exception of the Members of the House of Assembly Pension Plan, pension contributions by active members of the plans, together with matching employer contributions, are sufficient to meet current service costs. However, these contributions are not sufficient to meet the pensions costs of individuals who retired prior to the Fund being established, the interest on the unfunded liability of the plans, and losses on Fund investments.

4. Interest Costs

Interest costs alone on the unfunded pension liability during the year ended 31 March 2003 amounted to $270 million (i.e. $122 million more than the special payments made by Government.) The interest costs relating to the unfunded pension liability each year since 1994 are outlined in Figure 7.

Figure 7

Consolidated Summary Financial Statements
Interest Costs on the Unfunded Pension Liability
Years Ended 31 March
($ Millions)



Source: Province of Newfoundland and Labrador Public Accounts

2.15 Province of Newfoundland and Labrador Pooled Pension Fund

As Figure 7 shows, interest costs on the unfunded pension liability have increased from $171 million in 1994 to $270 million in 2003, an increase of $99 million (or 58%).

5. Losses on Fund Investments

Over the last two years the Province of Newfoundland and Labrador Pooled Pension Fund, similar to many large pension funds, has suffered significant losses on its investments. For the year ended 31 December 2002, the Fund experienced a loss of $165 million or 7.7% of average Fund investments. This amount is comprised of investment income of $87 million, a loss of $73 million on the sale of investments, and a decline of $179 million in the market value of investments held at year end.

In an April 2003 Benefits Canada report, the average return on investments for 2002 for the top 100 Canadian pension funds was a loss of 6.7%, ranging from a high of 2.6% return to a low of 9.9% loss.

Figure 8 shows the return on investments for the Fund from 1997.

Figure 8

Province of Newfoundland and Labrador Pooled Pension Fund
Return on Investments
Years Ended 31 December

Year	Return ($ Millions)	Average Investments ($ Billions)	% Return on Investments
1997	204	1.36	15.0 %
1998	147	1.57	9.4 %
1999	204	1.86	10.9 %
2000	184	2.12	8.7 %
2001	(21)	2.21	(1.0) %
2002	(165)	2.15	(7.7) %

Source: Audited Financial Statements of the Province of Newfoundland and Labrador Pooled Pension Fund

As Figure 8 shows, while the average return on investments recorded by the Fund for the four years 1997 through 2000 was $185 million, the combined loss for 2001 and 2002 was $186 million.

6. Special Payments by Government

Although Government has taken some action to address the unfunded pension liability, the unfunded pension liability continues to increase. In 1998, Government started to make special payments into the Fund with a view to reducing the unfunded pension liability and since that time has paid in approximately $840 million. However, these payments are not large enough to reduce the unfunded pension liability. In fact, the unfunded liability increased by $200 million during this period.

Recommendations

Pension Investment Committee should:

- *review its approach to monitoring Newvest Realty Corporation; and*
- *comply with the* Financial Administration Act.

Government should:

- *continue its efforts to address the unfunded pension liability.*

Committee's Response

Pension Investment Committee and Newvest Realty Corporation

General Discussion: The members of the PIC represent the pension interests of Government, plan participants and pensioners. Since none of the Committee members has the expertise required to construct complex investment portfolios or make strategic investment decisions, the PIC fulfills its fiduciary role by delegating that responsibility to professional investment counselling firms (Investment Managers). The structure of the Fund, the delegation of responsibilities, and reporting relationships have been designed with the assistance of Frank Russell Canada Limited (Russells), a pension investment consulting firm, which is a leader in the field of pension fund governance.

This delegation is outlined in the Fund's Statement of Investment Policies and Procedures, and these investment managers invest funds assigned to them under terms and conditions outlined in specific mandates. These mandates include preestablished benchmarks against which investment performance is measured by the PIC. Not only is their performance monitored by senior staff of the Department but also by Russells. In this way, the PIC exercises its fiduciary responsibilities while allowing experts in the field to perform the actual investing and portfolio construction.

Investment performance and compliance with established mandates are reviewed regularly by officials of the Department of Finance and quarterly by the PIC in consultation with Russells. As well, the PIC meet annually with each manager to review all aspects of their investment program, including compliance with mandates, senior personnel changes, past investment decisions and future changes to portfolios. This general process is followed for all investment managers including Newvest Realty Corporation.

Newvest Realty Corporation: With respect to the Fund's investment in real estate, the PIC, on the advice of Russells, made the decision to further diversify the portfolio by investing in real estate. Penreal Capital Management Limited was selected, through limited tender, to be the real estate portfolio manager. To facilitate investments in real estate and to limit the potential liability against other assets of the Fund, Newvest Realty Corporation, a limited liability company, was formed. Four members appointed by the PIC sit as directors on the Corporation's board while officials of Penreal Capital function as the Corporation's operating officers.

Your Report indicates that the PIC has had very little involvement in directing and controlling real estate activities, and this is quite true. The PIC acknowledges it has no expertise in the area of buying or selling complex real estate properties. Consequently, similar to the professionals retained by the PIC in the investment of other segments of the Fund, Penreal has been engaged to administer the real estate portfolio on behalf of Newvest. While the PIC meets with Penreal on an annual basis to review the year's activities, the Newvest Board of Directors meets, at least, semi-annually to review its real estate holding and portfolio strategy. As well, officials of the Pensions division meet on a regular basis if an acquisition is under active consideration.

Your Report makes specific reference to two concerns: (i) failure to obtain an independent appraisal prior to acquisition, and (ii) failure to make on-site inspections.

2.15 Province of Newfoundland and Labrador Pooled Pension Fund

With regard to your Report's first point, Newvest has reviewed these issues with Penreal Capital Management which has stated that an independent appraisal at the time of purchase will not add any value to the process. Prior to any acquisition, Penreal does an extensive review of any property it wishes to consider including professional structural analysis, review of location, existing rent structures and an assessment of real estate market conditions in the area. This due diligence process goes far beyond the analysis expected of an independent appraiser and, consequently, such independent appraisal would be of little value.

On the Report's second point, a review of a property by a designate of the PIC would be of limited value as there are no experts in the real estate field who sit on the PIC. The independent confirmation is received when the individual property is reviewed by an independent appraiser later in the cycle.

The delegation of the Fund's real estate activity to a separate corporation having a Board of Directors appointed by governing body is an accepted method of operating real estate investment portfolios in Canada. Since that Board meets with Penreal regularly to evaluate acquisitions or sales and, Penreal meets annually with the PIC to review its mandate and investment decisions, the Department is confident that the PIC is meeting its fiduciary responsibility.

Compliance with the Financial Administration Act *(FAA)*

In your Report, you indicate that the Fund is in violation of the FAA as real estate purchases by Newvest Realty Corporation can be levered by way of assuming existing mortgages. This "borrowing" without specific legislative authority is, in your view, a violation of the FAA. As indicated in previous discussions, the Department of Finance has received a legal opinion from the Department of Justice that states that the Fund is not a public fund and, consequently, the FAA does not apply. The opinion draws a clear distinction between "public money" regulated by the FAA, which is received, held or collected for or on behalf of the Province and those assets which are held in trust for pension plan members.

The Pension Fund is established under the Pensions Funding Act *(PFA) and the operations of the Fund and its subsidiary, Newvest Realty Corporation, are governed by that* Act. *While this corporate structure is not unique in the pension industry and is clearly permitted under the* Pension Benefits Act, *it is not specifically outlined under the PFA. Therefore, for greater certainty, this Department will approach Government requesting that the PFA be modified to provide explicit authority to set up subsidiary companies in the administration of its mandate and, also, to clearly state that the PFA is not subject to the FAA. This should resolve many of your concerns.*

2.15 Province of Newfoundland and Labrador Pooled Pension Fund

Losses on Investments

It is true that the Fund lost $186 million from 2001 and 2002. However, it is important to note that every three years the PIC undertakes a full review of its investment policy with the assistance of Russells. Using historical Capital Market data and Liability and cash flow projections made by the Province's Consulting Actuary, Russells prepares various asset mix scenarios, projects anticipated rates of return and identifies potential market volatility.

As a result of these reviews, the PIC has accepted an aggressive asset mix policy having 80% of its investment portfolio in equities (including real estate) and 20% in fixed income securities. While the portfolio was hard hit by the recent down turn in equity markets the performance prior to 2001 provided superior returns.

It is important to note that pension fund investment is a long term strategy to meet pension benefit payments as they become due and it is the Department's opinion that while investment markets will fluctuate from time to time, the aggressive asset mix policy will continue to outperform the 7.5% rate of return assumed by the Province's consulting actuaries in the long term.

Unfunded Pension Liability

The Department has been closely monitoring the growth in the unfunded liabilities of the four main defined benefit plans and, in the past, it has made recommendations which have included the introduction of special payments, contribution rate increases and benefit reductions. These have been accepted by Government and the Plan membership. As a result, the financial status of all plans have continued to improve since the inception of funding in 1980. The Department is certainly not of the opinion that further changes are unnecessary and, as a result, it will continue to make recommendations to Government to improve the financial stability of these pension plans.

Treasury Board Secretariat's Response

We are concerned with the increasing unfunded pension liability. As you have indicated, Government has made substantial annual special payments to address pension funding issues. With the exception of the Members of the House of Assembly Plan, contributions by active members, together with matching employer contributions, are sufficient to meet current service costs.

2.15 Province of Newfoundland and Labrador Pooled Pension Fund

The significant liability has developed over many years and can only be addressed within the Province's fiscal capacity. The strategic issue of funding Government's pension programs has to be addressed separately with each plan. Improving the unfunded position of the plans would require the full cooperation and participation of all stakeholders. There is a commitment to taking appropriate action in this area, however, such action must be within the fiscal constraints the Province faces.

2.15 Province of Newfoundland and Labrador Pooled Pension Fund

2.16 Food Premises Inspections and Licensing

Introduction

The Department of Government Services and Lands, through its Government Service Centre provides the public and the business community with access to a single Government Department for their convenience when applying for various permits, licences, certificates and approvals. Some of the services offered by the Government Service Centre include commercial building plan approvals, processing of Crown land applications, elevator inspections and approvals, small game and angling licences and permits, liquor establishment licensing and renewals, motor vehicle registration, licences and permits, vital statistics services, child care facilities inspections, personal care home inspections, and food premises licensing and inspection. There are five regional offices located in St. John's, Clarenville, Gander, Corner Brook and Goose Bay with two additional operational offices located in Harbour Grace and Grand Falls-Windsor reporting to the St. John's and Gander regional offices respectively. In addition, there are eight satellite offices located in Grand Bank, Marystown, Lewisporte, Springdale, Stephenville, St. Anthony, Port aux Basques and Rocky Harbour. The satellite offices report to their respective regional/operational offices.

The Government Service Centre is accountable to the Department of Health and Community Services which has the mandate for some of the programs and services being delivered by the Government Service Centre, including the food premises inspection and licensing program. The Government Service Centre also works in conjunction with Health and Community Services Boards and Integrated Health Boards in implementing the Department's health promotion and health protection programs.

To promote an effective and efficient working relationship among the parties, a Memorandum of Understanding exists between the Department of Health and Community Services, Health and Community Services Boards and the Government Service Centre. It establishes responsibilities and accountabilities among the parties as they relate to mandated programs and services of the Department of Health and Community Services, including food premises inspection and licensing. The Memorandum of Understanding was signed in April 1995 when certain services and programs of the Department were transferred to the Government Service Centre. The Memorandum of Understanding was revised in July 1999.

The Department of Health and Community Services has legislative responsibility for protecting the health of the public in the area of food safety. This occurs with the enforcement of the *Food Premises Regulations* under the *Food and Drug Act*, through the inspection and licensing of food premises by environmental health officers (inspectors) at the Government Service Centre.

2.16 Food Premises Inspections and Licensing

Food premises is defined as a place where food is prepared, manufactured, handled, cut, processed, packaged, displayed, stored, offered for sale, sold, or served and includes hotels, restaurants, catering vehicles, mobile preparation premises, temporary facilities, retail food stores, tents, booths, ships, cold stores, bakeries, breweries, bottling establishments, drinking establishments, dairies, creameries, pasteurizing plants, meat packing premises, and locker plants and premises.

There are four classes of food premises as follows:

1. Food retailing - includes premises involved in the retailing or wholesaling of prepackaged meats, fish, poultry, vegetables and fruit, for example, retail food stores and food stands.

2. Food preparation - includes premises involved in the preparation and/or cutting and/or sale of food products, for example, restaurants and snack bars.

3. Food production - includes premises where food is produced from an original source, for example, dairy farms and bottling of water.

4. Food manufacturing - includes premises where two or more products are combined to create a new one, for example, milk processing plants and bakeries.

In addition to their duties of inspecting and licensing food premises, inspectors at the Government Service Centre are also responsible for the enforcement of tobacco control and smoke-free environment legislation, bacteriological water quality monitoring, and the inspection and/or licensing of child care facilities, public schools and nursing, boarding and personal care homes.

Figure 1 shows the total number of Class 1,2,3, and 4 food premises inspected from 1 April 1998 to 31 March 2003, the number of licensed food establishments requiring inspection each year and the number of inspectors available to carry out those inspections. The information shows a 33% decrease in the number of inspections being carried out per inspector from 1998-99 to 2002-03. Furthermore, although the total number of food premises has decreased by 6.3%, during the same period the total number of inspectors has increased by 50%.

Figure 1

Licensed Food Premises and Inspections
Years ended 31 March

Year	# Food Premises per database	Inspections performed	Inspectors	Premises per Inspector	Inspections per Inspector
2002-03	4,387	6,620	36	122	184
2001-02	4,080	4,870	29	141	168
2000-01	4,785	5,839	24	199	243
1999-00	4,867	6,333	24	203	264
1998-99	4,682	6,620	24	195	276

Source: Government Service Centre

Scope and Objectives

We completed our review in October 2003. Our review covered the period 1 April 2001 to 7 October 2003 and included an analysis of food premises inspections and licencing.

We reviewed a sample of food premises files and reviewed inspection reports for compliance with the *Food Premises Regulations*, the Memorandum of Understanding, and established guidelines, policies and procedures. We also held discussions with Department and Government Service Centre officials.

Our objective was to determine whether the Department of Health and Community Services and the Government Service Centre were complying with inspection and licensing requirements and whether deficiencies identified in our 1998 report were addressed.

Conclusions

The *Food and Drug Act* provides for the inspection of food premises to ensure public safety in relation to the food supply. The *Food Premises Regulations* were enacted under the *Food and Drug Act* to prescribe the manner in which food intended for human consumption should be prepared, packaged, stored, transported, sold, advertised or exposed for sale, and delivered. An integral part of the inspection process of food premises requires that inspectors physically inspect food premises.

2.16 Food Premises Inspections and Licensing

Many of the significant weaknesses identified in the food premises inspection and licensing program during our 1998 review have not been corrected. For example:

The *Food Premises Regulations*

The Government Service Centre could not demonstrate whether food premises were in compliance with all areas of the *Food Premises Regulations* as inspection report forms do not provide the information necessary to make this determination.

There were 317, or 7% of food premises in the Government Service Centre's database which were operating without a valid license at the time of our review.

Memorandum of Understanding

The Government Service Centre is not fully complying with the Memorandum of Understanding in that:

- Approximately 40% of food premises reviewed were not being inspected at the required frequency. This represents an increase from 1998 when we found that approximately 35% of the food premises tested were not inspected in accordance with the required frequency.
- The Department of Health and Community Services is not being provided with the required reports on program activities by the Government Service Centre.

Policy and Procedures

Our review indicated issues regarding the adequacy of and compliance with policy and procedures and the food premises database as follows:

- Policy and procedures were deficient in several areas, including: no guidance for the inspector in determining the timeframe within which identified non-critical health hazards require correction; no guidance for the inspector with respect to the follow up of food premises which repeatedly violate the *Regulations*; and procedures related to the recording, investigating and reporting of food related complaints were not clearly established.

- The database is neither current nor accurate. For example:
    - 277 of the 4,518 food premises listed in the database at the time of our review were identified as closed by officials of the Government Service Centre; however, this was not indicated in the database.
    - 61 of the 222 inspection reports examined were not accurately recorded in the database.
    - 12 of the 222 inspection reports examined were not recorded in the database.

Our review identified instances of non-compliance with policy and procedures as follows:

- Inspectors did not always provide the food premises operator with the required time frame to correct the identified non-critical health hazard.
- Licences were sometimes issued even though there was no evidence on file to indicate that identified critical health hazards were corrected prior to the license being issued.
- Inspections are not representative of year round operations of the food premises in that they are mainly performed between November and March each year.
- Inspection reports are not always properly completed. For example, reports did not always adequately describe the health hazard and/or the corrective action required.
- Follow up inspections were not always completed to determine whether previously identified health hazards were corrected.

Performance Indicators and Monitoring Procedures

Our review indicated that the Government Service Centre does not adequately monitor the food premises inspection and licensing activities. In particular:

- No operational goals or objectives for the food premises inspection and licensing program have been established and no operational plan is in place.

- There is a lack of matching of resources available with the work that has to be completed because in most regions management does not fully participate in the planning and scheduling of inspection and licensing activity.

- Effective inspection and licensing activity monitoring is not possible because the database used to monitor inspection activity is neither current nor accurate, there is no schedule in place against which to monitor inspection activity, and management does not review completed inspection reports.

Findings and Recommendations

1. Compliance with *Food Premises Regulations*

The *Food and Drug Act* provides for the inspection of food premises to ensure public safety in relation to the food supply. The *Food Premises Regulations* were enacted under the *Food and Drug Act* to prescribe the manner in which food intended for human consumption shall be prepared, packaged, stored, transported, sold, advertised or exposed for sale, and delivered. An integral part of the inspection process of food premises requires the inspectors to inspect food premises and document the results of their inspection on a Food Premises Inspection Report which was designed for this purpose.

The Government Service Centre could not demonstrate whether inspectors are ensuring that food premises are fully complying with the *Food Premises Regulations* because Inspection Reports do not provide enough information to properly determine whether the inspector has ensured that the food premises has complied with all areas of the *Regulations.*

Our review of the Food Premises Inspection Report indicated that improvements have been made to the report to address some of the deficiencies noted in our 1998 review. For example, we note that the Report now contains a listing of critical health hazards to be examined and inspection scoring is included for risk assessment purposes. However, the following deficiencies still exist:

- Critical health hazards specified in the Report checklist do not reference the section of the *Food Premises Regulations* to which they relate and we could not determine whether all critical hazard areas in the *Regulations* are included on the report.

- The Report does not provide sufficient space to explain all the violations and the corrective action required. The Department of Health and Community Services attempted to address this issue by providing an addendum to the Report which could be used to provide additional information. However, we did not note any instances in our review where this addendum was used.

- When the inspector signs the Report, there is no indication what he/she is attesting to. A conclusion should be made by the inspector on whether or not the food premises complied with the *Food Premises Regulations*.

- There is no place on the Report for review by the inspector's supervisor.

Section 5(1) of the *Regulations* specifically states that *"A person shall not operate a food premises without a licence."* Our review included an examination, on a random basis within each region, of documentation pertaining to the operation of 89 food premises for the 2003-04 year up to 7 October 2003. Our review disclosed that 22 of 89 food premises operated for a period of time in 2003-04 without a valid licence, while an additional 6 continued to operate without a valid licence at the time of our review. In all these cases, the licence previously issued had expired. As a result, 31% of food premises tested were operating without valid licences for a period of time during the 2003-04 year. In our 1998 report, we found that approximately 27% of the food premises tested were operating without a valid licence for a period of time.

2. Compliance with Memorandum of Understanding

Effective 1 April 1995, the Government Service Centre became responsible for implementing certain programs and services of several line departments, including the Department of Health and Community Services. At that time, the Government Service Centre, Health and Community Services Boards (the Boards) and the Department of Health and Community Services entered into a Memorandum of Understanding which outlined their respective responsibilities relating to the inspection and licensing of food premises.

In July 1999, the Memorandum of Understanding was revised and included the Health Labrador Corporation and Grenfell Regional Health Services.

2.16 Food Premises Inspections and Licensing

Our review of responsibilities under the Memorandum of Understanding indicated the following:

(a) Department of Health and Community Services

The Memorandum of Understanding requires that the Department of Health and Community Services *"...ensure that its mandate is being effectively carried out by both Regional Boards and the Government Service Centre...in an efficient, effective, and professional manner."* Discussions with officials of the Department indicated that the information necessary to assess whether its mandate with respect to food safety is being carried out is only being received from one of the health and community services boards and only one of the Government Service Centre regional offices. Furthermore, the Government Service Centre does not provide the Department of Health and Community Services with an annual report indicating whether the *Food Premises Regulations* are being complied with, inspection frequencies stated in the Memorandum of Understanding are being met, and Departmental policies and procedures are being followed.

We do note, however, that new data collection and reporting procedures were formally established for the Government Service Centre in September 2003 and it is expected that the Department of Health and Community Services will be provided with the required information.

(b) Government Service Centre

- The Memorandum of Understanding requires the Government Service Centre to implement and enforce the legislative mandate of the Department of Health and Community Services. We could not determine whether the legislative mandate, as assigned to the Department of Government Services and Lands, relating to *Food Premises Regulations* was properly implemented and enforced due to the inadequate documentation of inspections at the Government Service Centre. In addition, food premises were operating without valid licences. Similar issues were identified in our 1998 report.

- The Memorandum of Understanding requires the Government Service Centre to inspect food premises an agreed upon number of times each year to minimize health risk. Figure 2 shows that the required inspection frequency by class has changed since inspection targets were first established in 1995. The inspection frequencies changed during a period when the Department was developing a new risk management framework which was required to determine the level of frequency necessary to ensure public health.

Figure 2

Required Frequency of Inspections

Class	Required Inspections per Year - 1995 MOU	Required Inspections per Year - 1999 Revised MOU	Revised Inspections per Year - 2002-03
1	1	1	1
2	2	1	2
3	2	1	2
4	2	1	2

We reviewed 89 food premises files for the period 2001-02 and 2002-03 and found that the Government Service Centre has not complied with the Memorandum of Understanding in that food premises were not being inspected at the required frequency. Our review indicated that:

- For 2001-02, food premises were required to be inspected only once per year. However, in 21 of 89 or 24% of food premises tested, no inspection was performed.

- For 2002-03, the frequency of inspections for Classes 2, 3, and 4 increased to twice per year. However, 36 of 89 or 40% of the food premises tested were not inspected as required. In 11 instances, no inspection was performed while in 25 instances only one inspection was performed.

Figure 3 provides details on the frequency of inspections, by class, of the 89 premises tested for 2001-02 and 2002-03.

Figure 3

Analysis of non-compliance with Memorandum of Understanding Inspection Frequency
For the years ended 31 March 2002 and 31 March 2003

	Total Premises in Sample				Premises not inspected in accordance with frequency specified in MOU			
	Class				Class			
Region	**1**	**2**	**3&4**	**Total**	**1**	**2**	**3&4**	**Total**
St. John's	9	24	1	**34**	2	12	0	**14**
Eastern	5	5	1	**11**	2	2	0	**4**
Central	8	11	2	**21**	0	0	0	**0**
Western	6	9	2	**17**	0	1	0	**1**
Labrador	2	3	1	**6**	0	2	0	**2**
2001-02	**30**	**52**	**7**	**89**	**4**	**17**	**0**	**21**
St. John's	9	24	1	**34**	1	20	1	**22**
Eastern	5	5	1	**11**	0	1	0	**1**
Central	8	11	2	**21**	0	2	0	**2**
Western	6	9	2	**17**	1	5	0	**6**
Labrador	2	3	1	**6**	1	3	1	**5**
2002-03	**30**	**52**	**7**	**89**	**3**	**31**	**2**	**36**

The results of our review indicated that the actual frequencies of food inspections in relation to the required frequencies has declined since our review in 1998. In 1998, we found that approximately 35% of the food premises tested were not inspected in accordance with the required frequency. The number of food premises not being inspected in accordance with the required frequency has now increased to 40%.

2.16 Food Premises Inspections and Licensing

- The risk management framework developed by the Department of Health and Community Services became effective in April 2003 and required the Government Service Centre to begin inspecting food premises in accordance with frequencies based on risk assessment. To check compliance with this new policy, we continued with the 89 food premises in Figure 3 to determine whether risk assessments were completed to establish the required inspection frequency. We found that for 15 of the 81 food premises subject to this policy a risk assessment was not completed and therefore these food premises were not inspected in accordance with the new policy.

- The Memorandum of Understanding requires that the Government Service Centre provide Regional Health Boards with statistical summaries of activities on a monthly basis. Our review of statistical reporting for the period January 2003 to September 2003 indicated that the St. John's region of the Government Service Centre did not submit any statistical information to its Regional Health Board for the period January to June 2003. In general, there has been an improvement in this area since our review in 1998.

- The Memorandum of Understanding requires that the Government Service Centre provide the Department of Health and Community Services with an annual report of statistical and narrative information on program activities at the end of each fiscal year. However, the Department of Health and Community Services has not received any annual reports from the Government Service Centre. The situation has not improved since our review in 1998.

- The Memorandum of Understanding requires the Government Service Centre to specifically carry out health promotion activities such as short lectures, intervention following an incident and distribution of health promotion literature as part of the inspection process. We found that the Government Service Centre delivers health promotion activity on an ad hoc basis and has no plan in place that formally includes these activities into daily inspection activity. The situation has not improved since our review in 1998.

3. Adequacy of and Compliance with Policy and Procedures

The Department of Health and Community Services has issued written policy and procedures to be followed by staff of the Government Service Centre when they are inspecting and licensing food premises. These policies and procedures are intended to cover all aspects of the inspection and licensing process and provide guidance to staff in carrying out their duties. These policies and procedures were updated in January 2003 to include new standard health guidelines and, in March 2003, new risk management guidelines. The results of our review of these policies and procedures and compliance are outlined below.

(a) Adequacy of Policy and Procedures

We found the following issues:

- There was insufficient guidance provided to inspectors with respect to carrying out follow up inspections. For example, there was no guidance for the inspector in determining the timeframe within which identified non-critical health hazards required correction. In addition, there was no guidance for the inspector with respect to the follow up of food premises which repeatedly violate the *Regulations*.

- Policies related to the recording, investigating and reporting of food related complaints were not clearly established.

Similar issues were identified during our review in 1998.

(b) Licensing of Food Establishments

We found the following issues:

- Department policy requires Government Service Centre administration to *"develop and maintain an ongoing up-to-date listing of all active food premises in each GSC region".*

  Our review indicated that the Government Service Centre has a new database in place that extends to each regional office. A listing from this system in October 2003 indicated that there were 4,518 licensed food premises in the Province. Our review of the listing indicated that it is neither current nor accurate. Through discussions with officials of the Government Service Centre we determined that 277, or 6% of the 4,518 food premises listed were actually "closed", but were not identified as "closed" in the system.

Furthermore, we were informed that 305 or 7% of the remaining 4,241 food premises were operating without a 2003-04 license because the required inspection was not completed. We found that most of these food premises were located in the St. John's region. Officials in the St. John's regional office have indicated that these food premises were subsequently inspected and now have a 2003-04 licence.

In addition, we were informed that 12 of the 4,241 food premises were operating without a license because, while the licensing inspection was completed, it was not entered in the computer system and therefore no license could be generated by the system.

Similar issues were identified during our review in 1998.

- Department policy requires Government Service Centre administration to *"ensure that food premises inspections are entered into the computerized tracking system in a timely fashion"*. For the period 1 April 2001 to 7 October 2003, we reviewed 222 inspection reports in connection with the 89 files in our sample. Our review of these 222 inspection reports indicated the following:

    - 61 were not accurately recorded in the database because the inspection date was incorrectly recorded. Furthermore, not all inspection reports were entered on a timely basis.

    - 12 were not recorded in the database.

  We found 13 inspections recorded in the database for which there was no corresponding inspection report found in the food premise file.

- 103 of the 222 inspection reports indicated that there was a health hazard identified. In 77 of these 103 inspection reports, the inspector was required by policy to provide the food premises operator with a time frame for correction, unless the hazard was corrected immediately. In 52 of these 77 inspection reports, the inspector did not provide the food premises operator with the required time frame to correct the identified health hazard and there was no indication that the hazard was corrected immediately.

  Similar issues were identified during our review in 1998.

- Of the 103 inspections performed where health hazards had been identified, 56 were issued a licence even though there was no evidence on file to indicate that the identified health hazard was corrected prior to the licence being issued. Furthermore, 40 of the 56 inspection reports identified health hazards that were considered as critical and required immediate correction.

  Similar issues were identified during our review in 1998.

- Inspections are not representative of year round operations of the food premises because the Government Service Centre performs licence renewal inspections during the 5 month period between November and March each year. We also note that in January 2003 the Department implemented a policy which states that the Government Service Centre should *"...stagger the licence expiration date of food premises so that all licences do not expire March 31st each year."*

  Similar issues were identified during our review in 1998.

(c) Inspection and Documentation of Food Establishments

- Inspectors are not notifying regional management in writing when the required inspection frequencies are not being met even though Departmental policy requires inspectors to *"notify regional management in writing outlining what facilities cannot be inspected in accordance with the required inspection frequency and why."*

  Similar issues were identified during our review in 1998.

- Inspection reports are not always properly completed. For the period 1 April 2002 to 7 October 2003 we found that, for 70 of 103 inspection reports examined where a health hazard was identified, the inspector did not adequately describe the health hazard and/or the corrective action required. Department policy requires that each inspector document their inspection on the Food Premises Inspection Report *"...ensuring all parts of the form are completed in detail."*

  Similar issues were identified during our review in 1998.

- There were instances where both critical and non-critical health hazards were not corrected and there were instances where we could not determine whether health hazards were corrected because follow up inspections were not performed. Critical health hazards pose an immediate public health risk and require immediate correction. Non-critical health hazards are generally not considered an immediate public health risk and, if not corrected immediately, require correction by the date indicated by the inspector.

  Of the 103 inspection reports reviewed, 72 had critical health hazards identified. We found the following:

  - For 2 of the 72 inspection reports identifying critical health hazards, we determined from the inspection report that the hazard was immediately corrected.

  - For 56 of the 72 inspection reports identifying critical health hazards, we were unable to determine from the inspection report whether the hazard was corrected. Furthermore, in instances where there was a subsequent inspection, the inspection report did not indicate the hazard was corrected.

  - For 14 of the 72 inspection reports identifying critical health hazards, we could not determine whether the hazard was corrected and it was identified in a subsequent inspection.

  Of the 103 inspection reports reviewed, 77 had non-critical health hazards identified. We found the following:

  - For 4 of the 77 inspection reports identifying non-critical health hazards, a follow-up inspection was performed and we determined that the hazard was corrected.

  - For 59 of the 77 inspection reports identifying non-critical health hazards, we were unable to determine from the inspection report whether the hazard was corrected and no follow up inspection was performed. In instances where there was a subsequent inspection the inspection report did not indicate the hazard was corrected.

  - For 14 of the 77 inspection reports identifying non-critical health hazards, we could not determine whether the hazard was corrected and it was identified in a subsequent inspection.

Similar issues were identified during our review in 1998.

4. Performance Indicators and Monitoring Procedures

Clearly stated operational goals and objectives are necessary to ensure the proper establishment of performance indicators and monitoring procedures. Our review of the Government Service Centre indicated the following:

- No operational goals or objectives for the food premises inspection and licensing program have been established and no operational plan is in place to ensure inspection and licensing activity is carried out in accordance with the legislation, the Memorandum of Understanding, and Department of Health and Community Services Policy and Procedures.

- There is a lack of matching of resources available with the work that has to be completed because in most regions management does not fully participate in the planning and scheduling of inspection and licensing activity. Management involvement in the planning and scheduling of inspection and licensing activity is necessary to ensure the Government Service Centre meets its responsibilities under the Memorandum of Understanding.

- Effective inspection and licensing activity monitoring is not possible because:

  - the database used to monitor inspection activity is neither current nor accurate;

  - risk assessment scores and identified health hazards are not recorded in the database;

  - there is no schedule in place against which to monitor inspection activity; and

  - management does not review completed inspection reports.

2.16 Food Premises Inspections and Licensing

We consider the Government Service Centre's performance in this area to be unsatisfactory.

Recommendations

Compliance with *Food Premises Regulations*

Reports used by the inspectors should be revised to ensure compliance with the Food Premises Regulations.

The Government Service Centre should comply with the Food Premises Regulations.

Compliance with Memorandum of Understanding

The Department of Health and Community Services should ensure that it promptly receives all information necessary to properly evaluate whether Regional Boards and Government Service Centres are carrying out its mandate.

The Government Service Centre should comply with the requirements of the Memorandum of Understanding.

Adequacy of and Compliance with Policy and Procedure

The Department of Health and Community Services should ensure that their policies are complete.

The Government Service Centre should comply with Department of Health and Community Services' policy and procedures.

Performance Indicators and Monitoring Procedures

The Government Service Centre should establish clear operational goals and objectives with respect to its food inspection and licensing program.

The Government Service Centre should properly plan and schedule its inspection and licensing activity to ensure its operational goals and objectives are achieved. It should also ensure management participates in the planning and scheduling of inspection and licensing activity.

2.16 Food Premises Inspections and Licensing

Response -Department of Government Services and Lands

Introduction

The Department has made significant improvements in the Food Premises Inspection and Licensing Program since the Auditor General first reviewed the program and we have continued to refine practices during the 2003-04 year. As this report reviews practices back to April of 2001, it includes some issues which we believe have already been addressed. We have commented on these under Findings and Recommendations.

There is a national shortage of Certified Public Health Inspectors and we have never been able to staff all 36 positions. For example, in Fiscal Year 2002-03, the additional Corner Brook position was not staffed until October 2002, the Rocky Harbour position in November 2002, the two St. John's positions in September 2002 and November 2002, and so on. The St. Anthony position has been vacant since October 2002. In Fiscal Year 2001-02, for instance, both the Marystown and Stephenville positions were not staffed until October 2001. The additional position for Labrador could not be staffed in either 2001-02 or 2002-03, despite repeated postings and national advertising. In addition, approved sick leave for Environmental Health Officers (EHOs) totaled 248 days (one FTE) in 2001-02 and 402 days (one and one half FTE) in 2002-03. Full details of staffing data are available from our Human Resources Division. In effect, the delays in staffing and vacancies, combined with approved sick leave, result in actual inspector number drastically different than those used in the Figure 1 analysis.

More importantly, the analysis does not point out that government's approval for the hiring of additional EHOs was explicitly for its Drinking Water Quality Initiative, to achieve the sampling frequencies outlined in the national "Guidelines for Canadian Drinking Water Quality". Over 15,000 water samples were taken by EHOs in 2002-03, an increase of 50% over 2001-02 and almost 100% over 2000-01.

Figure 1 points out that an identical number of food premises inspections (6,620) were conducted in 2002-03, as were conducted in 1998-99, despite there being 300 fewer establishments. Obviously, the additional inspector effort was focused on drinking water quality, as government directed. It is not reasonable to have new positions approved for the express purpose of achieving the national standard in drinking water sampling and then charge the department with not increasing food premises inspections proportionately.

2.16 Food Premises Inspections and Licensing

Findings and Recommendations

1. Compliance with Food Premises Regulations

The Food Premises Inspection Report (FPIR) is developed by the Department of Health and Community Services which, we understand, will comment on the Inspection Report form.

With respect to including a space in the FPIR for review by the inspector's supervisor, the Department believes that requiring managers to routinely review almost 7,000 reports annually would not be a productive use of staff time or public funds. Issues that require the manager's attention are brought forward by the EHO. All EHOs hold the Certificate in Public Health Inspection (CPHI) designation, while most GSC managers, given the multiplicity of GSC programs and services, do not. The EHO can discuss technical issues with the Environmental Health Coordinator of the GSC, or with Environmental Health Coordinators of the regional boards, or with the Disease Control and Epidemiology Division of the Department of Health and Community Services. The professional code and technical knowledge of CPHI holders is such that few individual inspection reports need to be brought to the attention of managers. We disagree with this recommendation.

2. Compliance with Memorandum of Understanding

(b) Government Service Centre

- *As the report indicates, a new data collection and reporting procedure was implemented in September 2003, following extensive discussions with the regional boards and the Department of Health and Community Services.*

- *EHOs will be advised to ensure adequate information is documented on the FPIR. However, we do not agree with the Report's recommendation that the FPIR be redesigned to serve a purpose for which it was not intended. We understand the Department of Health and Community Services will comment further on this recommendation.*

- *The Department acknowledges that some premises did not receive the required number of inspections prior to March 31. An examination of Figure 3 points out the 67% (2001-02) and 61% (2002-03) of these instances occurred in one office and measures are being taken to address this situation.*

2.16 Food Premises Inspections and Licensing

- *The 15 premises for which a risk assessment had not been completed at the time of the review have now been completed.*

- *As noted in the Report, the new data collection and reporting procedure has now been implemented in all offices, including St. John's.*

- *With new reporting procedures established, we will now be able to provide an annual report to the Department of Health and Community Services and regional boards. It should be noted such an annual report will be a compilation of the previous twelve monthly reports, as our resources do not permit an extensive analysis of the data.*

- *Health promotion activities are carried out by EHOs on a request basis only, as their time has to be prioritized to deal with inspection, compliance and regulatory matters. With existing staff resources, we see no possibility of health promotion activities being increased significantly.*

3. Adequacy of and Compliance with Policy and Procedures

(a) ***The Department of Health and Community Services will address the issue of policies and procedures.***

(b) ***Licensing of Food Establishments.***

- *The delay in data entry identifying premises which have closed is a staffing resource issue. Both EHOs and clerical staff are involved in data entry, depending on individual office staff resources. We strive to keep the database current but a delay in entering the "closed" status into a database field has no significant impact on the public health inspection program.*

  There was a significant backlog of required inspections in the St. John's regional area, which has now been addressed.

  With respect to the 12, out of the 4,241, which did not yet have the inspection entered into the database, and consequently could not have a license generated, this is a delay in data entry only.

With respect to the 222 inspections of 89 premises, it is inaccurate to state that the inspection date was "incorrectly entered". As was explained, this was a software programming issue in that the system automatically defaulted to the date of data entry which, obviously, occurs subsequently to the inspector returning to the office with inspection reports. The programming has now been modified but, given other data entry demands, we did not require that each of the 13,000 inspection dates for the two fiscal years be confirmed through manual comparison with paper files. The 13 inspections recorded in the database for which no corresponding report form was in the file can only be explained as mis-filing or misplacing of the FPIR. Staff have been reminded of the importance of carefully maintaining the FPIR, despite the electronic database.

- *Critical hazards must be corrected immediately and this is noted on the FPIR itself. Non-critical hazards are very often corrected at the time of the inspection. It is accurate, however, to report that such corrective measures are often not documented on the FPIR. Similarly, the field for compliance date is often not completed, with the EHO providing an agreed-upon date verbally, following discussion with the operator. Staff have been advised of these issues and instructed to take the additional time to fully document the FPIR.*

- *As noted above, EHOs have been advised to be more diligent in documenting their directives on the FPIR.*

- *Government has historically conducted food premises inspections in the five month period, November to March, as pre-licensing inspections for the upcoming license year beginning on April 1. Attempting to conduct all such inspections in a five month period has contributed greatly to our inspection program shortcomings. As the report notes, we are beginning the process of staggering 4,400 license expiration dates so that inspections can be more evenly spread over twelve months.*

(c) Inspection and Documentation of Food Establishments

- *Staff have been reminded of the need to document such instances in writing.*

- *As noted in 3(b) above, EHOs have been advised to be more diligent in form completion.*

- *Critical hazards are required to be corrected immediately. We acknowledge that EHOs have not always documented the corrective action taken on the FPIR and they have been advised accordingly.*

  A similar lack of FPIR documentation often occurs with non-critical hazards. In some cases, the follow-up inspection may be no more than a quick stop to ensure the corrective action was taken, with no FPIR used at all. Staff have been advised to fully complete the FPIR.

4. Performance Indicators and Monitoring Procedures

- *The goals and objectives are clearly outlined in the document, Food Premises Inspections Program: Inspection Frequency - Risk Management Initiatives (HCS - FPIR 2000-01, Second Edition, April 2002) from the Disease Control and Epidemiology Division of the Deparment of Health and Community Services. With respect to a formal "operational plan", each office and EHO has an assigned list of premises for which, once license expiration dates are staggered, full twelve-month rather than five-month scheduling can be established. We point out that EHOs are also responsible for sampling all municipal drinking water systems for bacteriological quality, inspecting personal care homes, day cares and other such facilities, inspecting schools, certifying all private septic systems, enforcing the* Tobacco Control Act *and* Smoke Free Environment Act, *investigating disease outbreaks, advising on private well water quality issues, and dealing with public inquiries and complaints in these and other areas. The development of a more formal "operational plan" for food premises inspection cannot be done in isolation, but would require that all EHO duties be included.*

- *We disagree with the auditor's finding respecting lack of management involvement. We believe the auditor found an indication of this in one office and extrapolated that conclusion, inaccurately, to other offices. We point out that EHOs are certified professionals with extensive qualifications in their field and are quite capable of planning and scheduling periodic inspections. The issue is not the planning and scheduling; it is having the time and resources, in the midst of competing demands, to accomplish the inspections. A given manager in a GSC will have inspectors on staff responsible for public health, environmental protection, liquor control, electrical inspections, buildings accessibility, development control, all clerical support, and a front counter* *operation which includes a variety of services such as Vital Statistics certificates and, in four offices, Motor Registration Division services. Many GSC managers serve dual roles: the sole Manager in our Corner Brook office also functions as the Province's Chief Electrical Inspector under the* Public Safety Act; *the sole Manager in Grand Falls-Windsor also functions as the Environmental Protection coordinator for the Department. GSC Managers direct the geographic and program assignments and help to establish priorities of EHOs; they cannot "fully participate" in scheduling inspections to the detriment of other important program areas.*

- *We disagree with the conclusion drawn from the four sub-sections:*

    - *The database cannot be as "current" as the standard set in the report, as long as manual data entry is required. Staff resources do not permit us to achieve the standard for timeliness which the report sets, particularly when the EHO who conducts field inspections must also perform the data entry. The greatest example of "inaccuracy" reported is the inspection date field defaulting to the date of data entry. While this was imprecise, it subsequently has been addressed, and it is reasonable to note that this relatively minor data entry issue has absolutely no bearing on public health protection.*

    - *The additional programming of the database to permit risk assessment scores, we have been informed by the Information Technology Division of the Department of Municipal and Provincial Affairs, will be completed by the end of the calendar year. At this time, given resource shortages, we do not foresee duplicating, through manual data entry, the hazards already noted on the FPIR.*

    - *This is incorrect. The scheduling data for required periodic inspections is in the database and can be printed as a report for each inspector for any time period. Furthermore, the monthly reports completed by EHOs serve to monitor activity.*

- *We do not agree that having Managers routinely reviewing the almost 7,000 annual inspection reports is an appropriate use of scarce resources. Inspection issues requiring managerial advice are brought forward on a case-by-case basis. As noted earlier, technical and policy support is always available from the GSC environmental Health Coordinator, from regional boards, and from the Department of Health and Community Services.*

Response -Department of Health and Community Services

Findings and Recommendations

1. Compliance with the Food Premises Regulations

The major focus of this section of the Review is the current Food Premises Inspection Report (FPIR) form used by the inspectors with the Government Service Centre (GSC). The FPIR form was designed in 2001-2002 for use beginning in 2002-2003 by inspectors as the first component of the newly developed risk based inspection process. The report identifies areas of non-compliance with the Food Premises Regulations*. The areas of non-compliance are divided into critical hazards and non-critical items. At the time of inspection, a copy of the report showing non-compliant areas of the operation is left with the owner/operator of the food premises. For food retailing and food service operations in Newfoundland and Labrador, where there are no areas of non-compliance identified on the FPIR form the assumption is that the premises is in compliance with the* Regulations *at the time of inspection.*

Below comments are provided on each of the four deficiencies noted in the review of the FPIR.

1) The critical hazards and non-critical items have been coded on the FPIR. Given that many of the critical hazards and non-critical items in the report relate to more than one section and subsection of the Food Premises Regulations *it would be impossible to have a clear, concise and usable report if reference was made to all sections and subsections of the* Regulations.

The 1998 AG Report on the Food Premises Licensing and Inspection Program indicated that "reference to sections of the Regulations *would be useful information to the Department of Health and Community Services in determining recurring problem areas". The coding critical hazards and non-critical items achieves the same goal.*

2) *For many food premises inspections, the amount of space on the FPIR for written text is likely sufficient. However, where there isn't sufficient space inspectors have two options available to them. They can use another inspection report or they can use "page 2" which was developed for this purpose. Page 2 of the FPIR is a page for written instructions, information, etc.*

3) *The signature box on the FPIR identifies the inspector that carried out the inspection. The signature attests that an inspection was carried out. The signature box can be changed from "Inspector:" to "Inspected by:".*

Obviously, where areas of non-compliance are noted on the FPIR the inspectors signature couldn't attest to the food premises complying with the Regulations *at the time of inspection.*

4) *The Government Service Centre may wish to comment on this. However, consultations on the development of the report did not identify a need for GSC supervisors to have a place for their signature.*

Consider the following:

- *The report was totally redesigned to include a listing of critical hazards and non-critical items. This listing was based on requirements of the* Food Premises Regulations. *Along with the inspectors knowledge of the* Regulations *the FPIR is sufficient to identify deficiencies in the operation of food premises.*
- *The decision was made not to reference the* Food Premises Regulations *sections in the new FPIR form. Instead the list of critical and non-critical hazards was coded so that the deficiencies can, at a later date, be entered into a database where analysis of trends, etc.. can occur and action taken to address the trends. The coding would be considered equivalent to specifying the section of the* Regulations.
- *The FPIR form provides an inspection score and identifies critical hazards. Both are used in determining the overall "risk" of the establishment and future inspection frequency.*
- *The inspector's signature identifies who performed the inspection and that an inspection was carried out on the date indicated.*

- *The GSC did not identify a need to have a place for the supervisor to sign that he/she reviewed the report.*

2. Compliance with MOU

Although it has taken some time, the Health and Community Services Boards, the Department of Government Services and Lands and the Department of Health and Community Services have agreed upon a data collection and reporting procedure for environmental health programs, including food premises licensing and inspection. This now allows the Health Regions and the Department to review, on a monthly basis, the food premises licensing and inspection activities of the Government Service Centre. The new procedure, which began this September, will allow the Regions and Department to effectively monitor GSC activities in this program.

3. Adequacy of and Compliance with Policy and Procedures

(a) Adequacy of Policy and Procedures

Although the comments raised are not considered to be significant, the Review isn't completely accurate in the description of the existing guidance provided to inspectors with the GSC.

For example:

1) *The issue* "there was no guidance for the inspector in determining the time frames within which identified non-critical health hazards required correction" *is dealt with somewhat on the FPIR. The following guidance is provided on the FPIR.*
   - *"Where non-critical items are not properly controlled, they have to be corrected in the time frames indicated under compliance date."*

   Further guidance for the professional public health inspector to determine an appropriate compliance time for non-critical items is not considered necessary. The professional judgement of the inspector is relied upon to provide a compliance time.

2) *The issue* "policies related to the recording, investigating and reporting of food related complaints were not clearly established" *is actually dealt with in two policy and procedure documents. One, FOOD2002-08 from January 2003, deals with "food product complaints". The other, 8-10 from 1994, deals with "responses to requests/demands". A revision to the second procedure document was drafted in the summer of 2003 and will be finalized in February 2004.*

3) *The Department will work with the Government Service Centre and the Health and Community Services Board in developing guidance for EHOs with respect to* "the follow-up of food premises that repeatedly violate the Regulations".

Based on the above, the statement that "similar issues were identified during our review in 1998" *is not accurate. First of all, the new FPIR provides guidance on the time frames for the correction of critical and non-critical items. Secondly, classes of food premises are now defined (an issue from 1998). Thirdly complaint investigation polices and procedure documents exist. Finally, some guidance is provided on documentation of inspections, including follow-up inspections.*

2.16 Food Premises Inspections and Licensing

2.17 Review of the Office of the Commissioner of Petroleum Products Pricing

Introduction

The Office of the Commissioner of Petroleum Products Pricing was established in May 2001 under the authority of the *Petroleum Products Act*. A Commissioner of Petroleum Products Pricing was appointed by the Lieutenant-Governor in Council in May 2001. The Office of the Commissioner is located in Grand Falls-Windsor and has five positions reporting to the Commissioner. The Commissioner reports to the Minister of Government Services and Lands.

The Commissioner's mandate provides for the establishment of geographic pricing zones throughout the Province and the regulation of maximum pricing for petroleum products at the wholesale and retail levels throughout the Province. Petroleum products consist of heating fuel (defined as furnace oil, stove oil or propane of a type used primarily for generating heat) and motor fuel (defined as gasoline, diesel fuel or propane of a type used primarily in internal combustion engines). The Commissioner's objective is to establish fair, transparent, and stable pricing, while at the same time, ensuring that set prices do not threaten the security of supply of petroleum products in the Province. At 31 March 2003, the Commissioner had identified 17 wholesalers and 558 retailers of petroleum products throughout the Province.

From May 2001 to 31 December 2001, the Commissioner received funding from Government. Effective 1 January 2002, the Commissioner receives funding from assessment fees charged to petroleum wholesalers in the Province. Figure 1 provides information on budget and actual revenues and expenditures of the Office of the Commissioner of Petroleum Products Pricing over the last two years.

Figure 1

Financial Information
Office of the Commissioner of Petroleum Products Pricing
31 March

	2003		2002	
	Actual	Budget	Actual	Budget
Revenue	$ 442,467	$ 500,000	$ 446,341	$ 343,800
Expenditure	494,945	492,887	366,023	343,800
Surplus/(Deficit)	$ (52,478)	$ 7,113	$ 80,318	$ 0

Source: Audited Financial Statements and Approved Budget

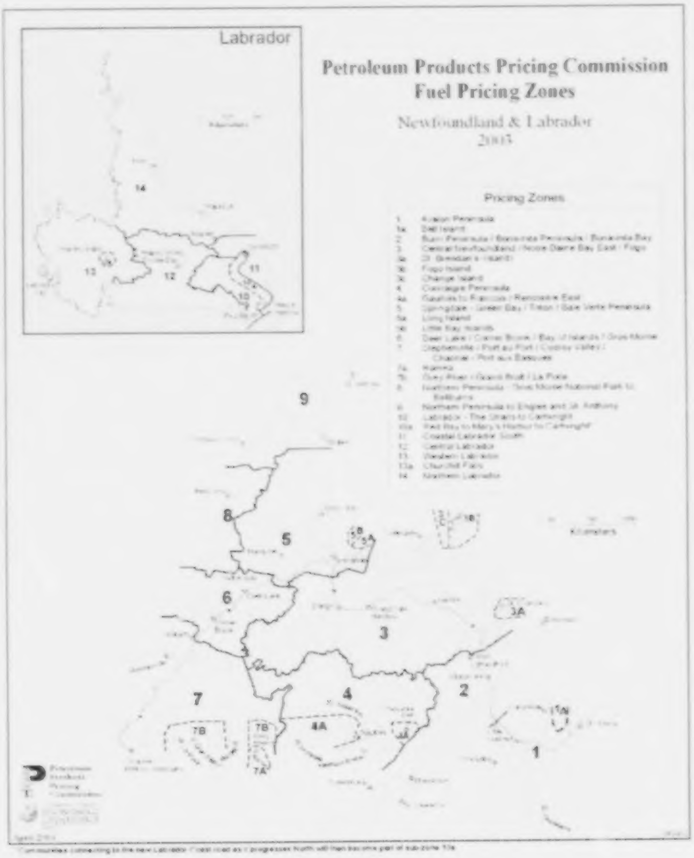
2.17 Review of the Office of the Commissioner of Petroleum Products Pricing

The *Petroleum Products Act* provides authority for the Commissioner to divide the Province into geographic zones and to set different maximum wholesale and retail prices for regulated petroleum products within each zone. Wholesalers and retailers can sell for less but not higher than the maximum allowable price in effect. On 10 October 2001, the Commissioner announced the establishment of 14 primary zones and 4 sub-zones and prices were set for the first time on 15 October 2001. Furthermore, the Commissioner established 7 additional sub-zones - 5 in November 2001 and 2 in July 2002.

The 14 primary zones and 11 sub-zones are provided in Figure 2.

Figure 2

Office of the Commissioner of Petroleum Products Pricing
Fuel Pricing Zones
31 March 2003


Labrador
Petroleum Products Pricing Commission
Fuel Pricing Zones
Newfoundland & Labrador
2003
Pricing Zones
1 Avalon Peninsula
1a Bell Island
2 Burin Peninsula / Bonavista Peninsula / Bonavista Bay
3 Central Newfoundland / Notre Dame Bay East / Fogo
3a St. Brendan's Island
3b Fogo Island
3c Change Island
4 Connaigre Peninsula
4a Gaultois to Francois / Ramea East
5 Springdale - Green Bay / Triton / Baie Verte Peninsula
5a Long Island
5b Little Bay Islands
6 Deer Lake / Corner Brook / Bay of Islands / Gros Morne
7 Stephenville / Port au Port / Codroy Valley / Channel - Port aux Basques
7a Ramea
7b Grey River / Grand Bruit / La Poile
8 Northern Peninsula - Gros Morne National Park to Bellburns
9 Northern Peninsula to Englee and St. Anthony
10 Labrador - The Straits to Cartwright
10a Red Bay to Mary's Harbour to Cartwright*
11 Coastal Labrador South
12 Central Labrador
13 Western Labrador
13a Churchill Falls
14 Northern Labrador
Kilometers
14
13
13A
12
11
10
10A
9
8
5
5B
5A
6
3
3A
3B
3C
2
1
1A
4
4A
7
7A
7B

2.17 Review of the Office of the Commissioner of Petroleum Products Pricing

Scope and Objectives

We completed our review in April 2003. Our review included an examination of the operations of the Office of the Commissioner of Petroleum Products Pricing since its inception in May 2001. Our objective was to assess whether necessary systems and procedures were in place for the Commissioner to establish geographic pricing zones and to regulate maximum pricing for petroleum products at the wholesale and retail levels throughout the Province. Included in this review was:

- an assessment of the process used in establishing geographic pricing zones;
- an assessment of the process used in establishing allowed mark-ups for petroleum products between the wholesale price to the retailer and the retail price to the consumer;
- a review of the Commissioner's monitoring and enforcement activities; and
- an examination of compliance with relevant authorities.

As part of our review, we interviewed key personnel at the Office of the Commissioner of Petroleum Products Pricing and reviewed and documented relevant information relating to planning, guidelines, policies, procedures, contracts, monitoring and reporting activities, and information systems used by the Commissioner.

Conclusions

The Office of the Commissioner of Petroleum Products Pricing was established in May 2001 with a mandate which provides for the establishment of geographic pricing zones throughout the Province and the regulation of maximum pricing for petroleum products at the wholesale and retail levels throughout the Province. In October 2001, the Commissioner announced 14 primary pricing zones and 4 sub-zones, and also set maximum prices for petroleum products in each of these zones.

Our review indicated that:

- The Commissioner did not comply with the requirements of the *Petroleum Products Regulations* in establishing geographic pricing zones and setting maximum prices in that adequate information was not obtained on **historical** prices for petroleum products charged to retailers and consumers throughout the Province and on the **historical** margins between fuel costs and these prices. As a result of not obtaining this information, the Commissioner could not consider, as required by the *Regulations*, those factors and costs that may have explained the differences between **historical** prices and between **historical** margins in establishing geographic pricing zones and maximum prices.

- In 1 instance, the maximum wholesale and retail prices for petroleum products set by the Commissioner was incorrectly calculated. In this instance, the maximum wholesale and retail prices for diesel fuel in Zone 10 has been understated by 1.725 cents per litre including HST since the first period of price regulation began in October 2001.

- The Commissioner is not adequately monitoring compliance with the *Petroleum Products Act* and *Regulations*. In particular, required contact information has not been provided by all wholesalers and retailers, periodic reports have not been requested from wholesalers and retailers, and no inspections of wholesalers and retailers have been conducted. As a result, the Commissioner did not determine whether wholesalers and retailers are charging more than the established maximum price and did not obtain information on the factors which are influencing the costs of supplying petroleum products throughout the Province.

Findings and Recommendations

Establishment of Geographic Zones

The *Petroleum Products Act* provides authority for the Commissioner to divide the Province into geographic zones and to set different maximum wholesale and retail prices for regulated petroleum products within each zone. In establishing these geographic zones, Section 5 of the *Petroleum Products Regulations* requires the Commissioner to consider the following factors:

- The prices that have been charged to retailers and consumers for heating fuel and motor fuel throughout the Province, for the period of time that the Commissioner considers appropriate.

- Those factors and costs that may explain the differences, if any, between the prices that have been charged to retailers and consumers for heating fuel and motor fuel throughout the Province for the period of time considered appropriate by the Commissioner including, transportation costs, volume of sales, storage costs, distribution costs, inventory turnover rates and the other considerations that the Commissioner considers relevant.

In order to establish fair and reasonable criteria for the designation of zones and sub-zones within the Province, the Commissioner engaged a consultant in July 2001. As a first step in gathering information to be used in the establishment of pricing zones, the Commissioner identified petroleum product wholesalers in the Province and requested information relating to the nature, extent and rationale for existing informal price zones or area differentials. At the time contact was made, the Commissioner had identified only 10 wholesalers. It was later determined by the Commissioner that there were a total of 17 wholesalers operating in the Province. Discussions with both the Commissioner and the consultant indicated that none of the 10 petroleum product wholesalers contacted supplied the requested information on **historical** prices, pricing zones or rationale for their informal zones.

As a result of not obtaining **historical** information on prices and margins, the zones proposed by the consultant were based primarily on the consultant's experience and knowledge of the industry and its operations within the Province. The consultant concluded that general industry practice was to set prices using primary marine terminals as a base and then adding transportation and handling costs for pricing products in outlying regions supplied from these terminals. Using this as a general guide, with further consideration of a general knowledge of geographic distribution distances, the use of secondary bulk storage, volume of sales, stock losses and inventory turnover rates, pricing zone boundaries were proposed by the consultant. The Commissioner formally established the zones using the information provided by the consultant. In October 2001, the Commissioner publicly announced the establishment of 14 primary pricing zones and 4 sub-zones.

Our review of the process used by the Commissioner in establishing the pricing zones indicated that the process was not in compliance with the requirements of the Regulations as follows:

- There was inadequate information obtained to determine **historical** prices that were charged to retailers and consumers throughout the Province. In fact, the only information analyzed was the **historical** price of regular unleaded gasoline and diesel fuel in the St. John's area.

- As a result of not determining **historical** prices that were charged to retailers and consumers throughout the Province, the Commissioner could not consider those factors and costs that may have explained any differences between these **historical** prices such as volume of sales, storage costs, distribution costs, and inventory turnover rates.

Furthermore, our review indicated the following issues relating to the process used by the Commissioner in the initial establishment of the geographic zones:

- Although none of the 10 wholesalers contacted provided the requested information relating to the nature, extent and rationale for existing informal price zones or area differentials for all petroleum products in all areas of the Province, there was limited follow-up on the Commissioner's initial request. Furthermore, although there are penalty provisions in the *Petroleum Products Act* for wholesalers who do not provide information, they were never enforced.

- There was inadequate documentation to support how the consultant considered transportation and handling costs such as geographic distribution distances, the use of secondary bulk storage, volume of sales, stock losses and inventory turnover rates in the establishment of pricing zone boundaries.

- Although the *Regulations* did not come into effect until 16 November 2001, the zones were formally established by the Commissioner in October 2001. Our review, however, indicated that the Commissioner was aware of the provisions of the proposed *Regulations* when the zones were being established.

- As a result of the lack of information obtained from the wholesalers in the initial establishment of the pricing zones, it was subsequently determined that the initial establishment of zones required adjustment. Based on additional information provided by petroleum companies, the Commissioner determined that seven additional sub-zones were required to be established. Five of these 7 sub-zones were established in November 2001, just one month after the initial establishment of the zones. The remaining 2 sub-zones were established in July 2002.

  As well, in one instance, the boundaries between two existing zones were changed in September 2002; however, in March 2003, just six months later, it was decided to revert to the previously existing boundaries. The change back to the previously existing boundaries was based in large part on representation received by the Commissioner from the areas affected.

- The geographic zones for motor fuels were also used by the Commissioner for heating fuels. There was no analysis to determine whether there were any transportation, handling or other cost factors which may have been unique to heating fuels and which may have resulted in separate zones being required.

The Commissioner does not have an established process in place to ensure that changes in zones are approved in accordance with the requirements contained in the *Petroleum Products Act* and *Regulations*. There are certain requirements under the *Act* and *Regulations* that the Commissioner must consider when assessing an application from a wholesaler or retailer for a change in price, and in deciding whether to order the price change to apply to other wholesalers or retailers such as in the case of a change in zone boundaries. These requirements include the following: the Commissioner can only accept one application from a wholesaler or retailer in a 12 month period; the Commissioner must provide public notice of the application as well as an opportunity for others to provide comments prior to the Commissioner ordering the price change; and the Commissioner must consider whether the change would be reasonable as a result of a change to specified costs and other factors.

The Commissioner could not demonstrate whether these requirements were addressed when the sub-zones were established or when boundaries were changed between two existing zones.

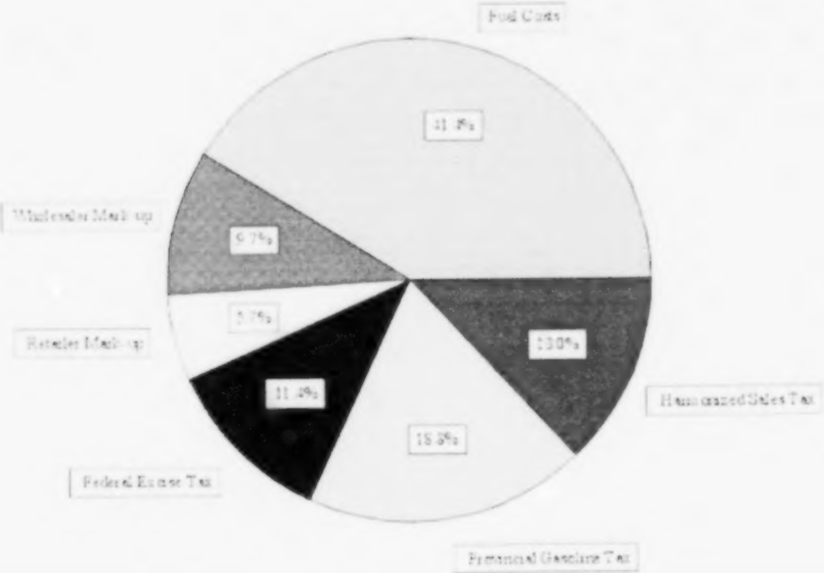
Petroleum Products Pricing

The price consumers pay for petroleum products is comprised of six main components as follows: fuel costs, Provincial gasoline tax, Federal excise tax, HST, a markup by wholesalers, and a markup by retailers.

For example, the price of a litre of regular unleaded self-serve gasoline in St. John's at 31 March 2003 was 87.7¢ and was comprised of the following:

Figure 3

Office of the Commissioner of Petroleum Products Pricing
Cost Components of a Litre of Regular Unleaded Self-Serve Gasoline in St. John's
31 March 2003



Source: Office of the Commissioner of Petroleum Products Pricing

Figure 4 outlines the cost components of a litre of regular unleaded self-serve gasoline for each zone at 31 March 2003.

Figure 4

Office of the Commissioner of Petroleum Products Pricing
Cost Components of a Litre of Regular Unleaded Self-serve Gasoline
31 March 2003

Zone	Location	Fuel Costs	Wholesaler Mark-up	Retailer Mark-up	Federal Excise Tax	Provincial Gasoline Tax	Harmonized Sales Tax	Pump Price (cpl)
1	Avalon Peninsula	$0.3623	$0.0850	$0.0500	$0.1000	$0.1650	$0.1143	$0.877
1a	Bell Island	$0.3623	$0.0950	$0.0500	$0.1000	$0.1650	$0.1158	$0.888
2	Burin-Bonavista Peninsulas	$0.3623	$0.0950	$0.0500	$0.1000	$0.1650	$0.1158	$0.888
3	Central Nfld.	$0.3623	$0.1000	$0.0500	$0.1000	$0.1650	$0.1166	$0.894
3a	St. Brendan's	$0.3623	$0.1350	$0.0500	$0.1000	$0.1650	$0.1218	$0.934
3b	Fogo Island	$0.3623	$0.1100	$0.0500	$0.1000	$0.1650	$0.1181	$0.905
3c	Change Islands	$0.3623	$0.1300	$0.0500	$0.1000	$0.1650	$0.1211	$0.928
4	Connaigre Peninisula	$0.3623	$0.1150	$0.0500	$0.1000	$0.1650	$0.1188	$0.911
4a	Gaultois to Francois/ Rencontre East *	$0.3623	$0.1511	$0.1000	$0.1000	$0.1650	$0.1318	$1.010
5	Springdale and Baie Verte Peninsula	$0.3623	$0.1050	$0.0500	$0.1000	$0.1650	$0.1173	$0.900
5a	Long Island	$0.3623	$0.1250	$0.0500	$0.1000	$0.1650	$0.1203	$0.923
5b	Little Bay Islands	$0.3623	$0.1300	$0.0500	$0.1000	$0.1650	$0.1211	$0.928
6	Deer Lake-Corner Brook	$0.3623	$0.0850	$0.0500	$0.1000	$0.1650	$0.1143	$0.877
7	Gallants to Port aux Basques/Burgeo	$0.3623	$0.1050	$0.0500	$0.1000	$0.1650	$0.1173	$0.900
7a	Ramea	$0.3623	$0.1450	$0.0500	$0.1000	$0.1650	$0.1233	$0.946
7b	Grey River/Grand Bruit/ La Poile *	$0.3623	$0.1511	$0.1000	$0.1000	$0.1650	$0.1318	$1.010
8	Norther Pen. -Gros Morne to Belburns	$0.3623	$0.1000	$0.0500	$0.1000	$0.1650	$0.1166	$0.894
9	Norther Pen. - to Englee and St. Anthony	$0.3623	$0.1150	$0.0500	$0.1000	$0.1650	$0.1188	$0.911
10	Labrador Straits to Red Bay	$0.3623	$0.1600	$0.0500	$0.1000	$0.1500	$0.1233	$0.946
10a	Mary's Harbour/ Charlottetown	$0.3403	$0.1950	$0.0500	$0.1000	$0.1650	$0.1276	$0.978
11	Coastal Labrador - South *	$0.3403	$0.2661	$0.1000	$0.1000	$0.1650	$0.1457	$1.117
12	Central Labrador - Goose Bay	$0.3623	$0.1300	$0.0500	$0.1000	$0.1650	$0.1211	$0.928
13	Western Labrador	$0.3623	$0.1250	$0.0500	$0.1000	$0.1650	$0.1203	$0.923
13a	Churchill Falls	$0.3623	$0.1450	$0.0500	$0.1000	$0.1650	$0.1233	$0.946
14	Coastal Labrador - North *	$0.3403	$0.2661	$0.1000	$0.1000	$0.1650	$0.1457	$1.117

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* Regular unleaded gasoline full service cost component information used due to self-service not provided in zone.
Source: Office of the Commissioner of Petroleum Products Pricing

2.17 Review of the Office of the Commissioner of Petroleum Products Pricing

The *Petroleum Products Act* requires the Commissioner to determine the maximum price to the retailer and the consumer for petroleum products. As tax rates are fixed, the Commissioner only considers the cost of fuel and the allowable wholesaler and retailer mark-ups in determining the maximum price. Our review of these components indicated the following:

(a) Fuel Costs

The cost of fuel for all petroleum products with the exception of propane is based on the industry standard Platt's New York Harbour daily quoted cargo price. The cost of fuel for propane is based on the Bloomberg Oil Buyers Guide Sarnia Rack price.

As required by the *Petroleum Products Regulations*, the Commissioner tracks market prices daily, converts them to prices in Canadian cents per litre, and averages their movement during the 30 days immediately preceding the date on which the maximum retail price is to take effect. The difference in the average from the previous month becomes the adjustment factor for the new maximum price and represents the basis of the fuel cost for the regulated fuel price.

In general, the Commissioner sets fuel prices on the 15th of each month. Therefore, fuel prices have been set a total of 18 times since October 2001. Furthermore, the *Petroleum Products Regulations* does allow the Commissioner, "where circumstances warrant", to adjust the benchmark price at other times. This is known as the interruption formula and has been used two times to the end of March 2003: on 3 January 2003 and on 25 March 2003. In March 2003 the Commissioner announced an interpretation of "where circumstances warrant" to mean if fuel costs (excluding propane) fluctuate an average of 3.5 cents or more per litre for five consecutive business days. In the case of propane, the fluctuation has to be an average of 5.0 cents or more per litre on a weekly basis.

As part of our review of the Commissioner's price setting process, we examined the Commission's calculation of the maximum wholesale and retail prices for various petroleum products. Our sample included a total of 14 calculations consisting of 2 calculations supporting prices set by the Commissioner for each of the 7 petroleum products regulated by the Commissioner. Our review indicated that in 1 instance, the price set by the Commissioner was incorrect as follows:

- The maximum wholesale and retail prices for diesel fuel in Zone 10 has been understated by 1.725 cents per litre including HST since the first period of price regulation began in October 2001.

Under the *Gasoline Tax Act* the rate of gasoline tax for gasoline products is reduced to 15.0 cents per litre (from 16.5 cents per litre) for the region of southern Labrador, corresponding to the Commissioner's Zone 10. The reduced rate of gasoline tax does not apply to diesel fuel; however, the Commissioner has also been applying this reduced tax rate to diesel fuel in calculating the maximum wholesale and retail prices for this product.

(b) Mark-ups

In establishing the initial allowed mark-up between the wholesale price to the retailer and the retail price to the consumer, Section 10 of the *Petroleum Products Regulations* requires the Commissioner to consider the following factors:

- The **historical** margin between product prices for the benchmark and the prices that have been charged to consumers within the Province or zone for the type of heating fuel or motor fuel, excluding applicable taxation, for the period of time that the Commissioner considers appropriate.
- Whether the **historical** margins identified are reasonable, taking into account transportation costs, volume of sales, storage costs, distribution costs, inventory turnover rates and other considerations that the Commissioner considers relevant.
- That the maximum retail price, to the extent possible, should allow competition between retailers.

The consultant involved in the establishment of the pricing zones was also engaged to determine the initial allowed mark-up.

We were informed that as a starting point or base-price for motor fuels, an analysis was performed of retail pump prices (excluding tax) for the period of 1 April 1999 to 30 September 2001, but only for regular unleaded gasoline and diesel fuels, and only for St. John's. We were informed that this information was obtained from the Department of Mines and Energy and wholesalers. These prices were then compared to the industry recognized

Platt's New York Harbour daily quoted cargo prices for the same period. The average difference during the period was determined by the consultant to be 12.0 cents per litre. The consultant used the pump prices for regular unleaded gasoline and diesel fuels as a basis to recommend the initial base price for all regulated motor fuels in St. John's.

With the base price established for St. John's, the consultant identified differences in prices for all motor fuels for each of the zones based on a general knowledge of such factors as volume of sales, storage costs, distribution costs, and inventory turnover rates.

The Commissioner established the prices using the mark-up information provided by the consultant. In October 2001, the Commissioner publicly announced the maximum allowable prices.

Our review of the process used by the Commissioner in establishing the initial mark-up for petroleum products indicated that the process was not in compliance with the requirements of the *Regulations* as follows:

- There was inadequate information obtained to determine the **historical** margin between the benchmark and the prices that have been charged to consumers within the Province or within zones for all petroleum products. For example, the only information analyzed for regular unleaded gasoline and diesel fuel was the **historical** price in the St. John's area.

- As a result of not having information on **historical** margins for all petroleum products within the Province, the Commissioner could not assess the reasonableness of wholesaler and retailer margins in determining the allowed mark-up and the factors that could have explained these differences. Such factors would include transportation costs, volume of sales, storage costs, distribution costs, inventory turnover rates and differences in margins required in order to provide for competition between retailers.

Furthermore, our review indicated the following issues relating to the process used by the Commissioner:

- As noted in relation to the establishment of geographic zones, only 10 of the 17 wholesalers were identified and requested to provide information relating to the nature, extent and rationale for existing informal price zones or area differentials. None of the 10 wholesalers contacted provided the requested information for all petroleum products in all areas of the Province. There was limited follow-up on the initial request and although there are penalty provisions in the *Petroleum Products Act* for wholesalers who do not provide information, they were never enforced.

- There was inadequate documentation to support how the consultant considered such factors as transportation costs, volume of sales, storage costs, distribution costs, inventory turnover rates, and to the extent possible allowing competition between retailers in the establishment of initial allowed markups.

- Although the *Regulations* did not come into effect until 16 November 2001, the allowed markups were initially set by the Commissioner on 15 October 2001. Our review, however, indicated that the Commissioner was aware of the provisions of the proposed *Regulations* when the markups were being established.

- The assumptions used in setting the mark-up for motor fuels were also used by the Commissioner for heating fuels. While some **historical** price information was obtained for heating fuels in the St. John's area, neither the consultant nor the Commissioner completed a detailed analysis to support the mark-ups for heating fuels throughout the Province. The Commissioner could not provide any rationale for the mark-ups for heating fuels which would include an analysis to determine whether there were any transportation, handling or other cost factors which may have been unique to heating fuels and which may have resulted in different mark-ups being set.

Aside from price changes based on changes in fuel costs, the Commissioner can change prices based on applications received from wholesalers or retailers. As noted in relation to the establishment of geographic zones, our review indicated that the Commissioner does not have an established process in place to ensure that price changes resulting from such applications are approved in accordance with the requirements contained in the *Petroleum Products Act* and *Regulations*.

In particular, there are certain requirements under the *Act* and *Regulations* that the Commissioner must consider when assessing an application for a change in price, and in deciding whether to order the price change to apply to other wholesalers or retailers such as in the case of a change in zone boundaries. These requirements include the following: the Commissioner can only accept one application from a wholesaler or retailer in a 12 month period; the Commissioner must provide public notice of the application as well as an opportunity for others to provide comments prior to the Commissioner ordering the price change; and the Commissioner must consider whether the change would be reasonable as a result of a change to various costs and other factors.

The Commissioner could not demonstrate whether these requirements were addressed when price changes were established in connection with the creation of the additional seven sub-zones in November 2001 and July 2002 or when boundaries were changed between two existing zones.

Monitoring and Enforcement Activities

To assist the Commissioner in monitoring compliance with the *Petroleum Products Act* and *Regulations*, the *Act* provides the Commissioner with the authority to conduct inspections, investigations, and complaint hearings, and to request certain information from wholesalers and retailers such as prices charged and sales volumes for petroleum products.

Our review indicated that the Commissioner is not adequately monitoring compliance with the *Act* and *Regulations* as follows.

1. Contact Information and Periodic Reports

The *Regulations* require wholesalers and retailers to provide contact information such as contact name and address to the Commissioner within 30 days of the *Regulations* coming into force, i.e. by 15 December 2001. In addition, the *Regulations* provide the authority to the Commissioner to request quarterly reports which would contain such information as: petroleum products sold; the type and capacity of storage tanks maintained; the average monthly price or daily pump price of each product; and the amounts of each type of tax. This information would allow the Commissioner to determine whether wholesalers and retailers are charging more than the established maximum price. It would also provide the Commissioner with information on the factors which influence the costs of supplying petroleum products throughout the Province.

Our review indicated that:

- Twelve of the 17 wholesalers have not provided the Commissioner with any of the contact information required under the *Regulations*, and while the remaining 5 wholesalers have provided the Commissioner with some information, the information provided is not complete.

  There was limited follow-up on the outstanding information and although there are penalty provisions in the *Petroleum Products Act* for wholesalers or retailers who do not provide information, they were never enforced.

- The Commissioner has not requested periodic reports from any of the wholesalers or retailers. As a result, the Commissioner did not determine whether wholesalers and retailers are charging more than the established maximum price and did not obtain information on the factors which are influencing the costs of supplying petroleum products throughout the Province.

- The *Act* provides the Commissioner with the authority to perform investigations and inspections. An investigation may be performed to determine whether a price being charged by a wholesaler or a retailer for heating fuel or motor fuel exceeds the maximum allowable price set under the *Act*. An inspection is a more detailed review which the Commissioner may perform to ensure compliance with the *Act*.

  During the period of our review we found that, although the Commissioner performed five investigations to determine whether a price being charged by a wholesaler or a retailer for heating fuel or motor fuel exceeds the maximum allowable price set under the *Act*, the Commissioner has not performed any inspections.

Discussions with officials indicated that the Commissioner was in the process of visiting the wholesalers and retailers to obtain contact information and information that would be provided in a periodic report.

The Commissioner does not have a formal process in place to address complaints received. We were informed that many of the complaints received relate to instances where retailers may be charging prices in excess of the maximum allowable price. Complaints received and action taken are not formally recorded and there is no database in place for use in monitoring complaints received. The use of such a process would provide information to the Commissioner on the extent of complaints received within geographic zones or by wholesaler or retailer, and could also be used to track any required follow-up.

2. Assessment Fee

From May 2001 to 31 December 2001, the Commissioner received operational funding from Government. Effective 1 January 2002, the Commissioner receives funding from assessment fees charged to petroleum wholesalers in the Province.

The *Petroleum Products Assessment Regulations* provided for an initial annual assessment fee based on a rate of $0.0004 per litre on petroleum products. The assessment fee is based upon the previous year's volume of regulated petroleum products sold by the wholesaler. The Commissioner increased the rate of the assessment fee effective 1 January 2003 to $0.0007 per litre.

Discussions with the Commissioner indicated that the assessment fee of $0.0004 per litre was based on a projected sales volume of 1.3 billion litres. However, actual sales volume reported by the wholesalers was approximately 1.0 billion litres. As a result, the assessment fee was increased to $0.0007 per litre to cover the anticipated shortfall in assessment fee required to fund operations.

In March 2003, the *Regulations* were amended to provide that only wholesalers who refine or bring petroleum products into the Province or receive delivery of petroleum products from wholesalers or retailers outside the Province would be charged assessment fees. At the time of our review, the Commissioner had identified six wholesalers who are required to pay the assessment fee.

2.17 Review of the Office of the Commissioner of Petroleum Products Pricing

The *Petroleum Products Act* provides the Commissioner with the authority to conduct a review of the information provided by the wholesalers for the purposes of validating this information. Discussions with the Commissioner indicated that in order to validate the assessment fees submitted by the wholesalers, the Commissioner has authorized the Department of Finance to perform inspections to verify the sales volumes reported by the wholesalers. We were advised by the Commissioner that no inspections have been completed by the Department of Finance at the time of our review. In addition, there was no agreement between the Commissioner and the Department which details the nature, frequency, and extent of these inspections.

As a result, the Commissioner cannot determine whether the wholesalers are submitting the correct assessment fee to the Commissioner.

Financial Operations of the Commissioner

The Commissioner has not established policies relating to financial operations. In the absence of such policies, the Commissioner refers to Provincial Government policies for guidance. The following issues were identified during our review of expenses.

1. **Consultant.** A consultant was engaged by the Commissioner in July 2001at an estimated cost of $15,840. The consultant was engaged to advise the Commissioner on establishing pricing zones, with a report due prior to the end of September 2001. Work completed to the point where the geographic zones were established on 15 October 2001 cost the Commissioner approximately $18,750.

   The Commissioner retained the services of this consultant to provide advice on an ongoing basis including analyzing weekly price data and conducting meetings with wholesalers. During the 2002 fiscal year, the Commissioner paid an additional $22,000 to the consultant with an additional $30,000 paid during the 2003 fiscal year relating to this work. A further $25,000 is budgeted for the 2004 fiscal year.

   Our review indicated the following:

   - There was no documentation on file to support the selection process for engaging this consultant or to support whether the fee proposed by the consultant for the first project was fair and reasonable.

- Although there was a proposal relating to the estimated cost of $15,840 and a deliverable for the first project, there was nothing in place outlining the nature, scope, timing and payment provisions for the additional work totaling $52,000 performed by the consultant after 15 October 2001.

- When the proposal for the first project was accepted, it was indicated that a report was expected prior to the end of September 2001.

The only documentation provided to the Commissioner by the consultant was a document marked *"Draft"*, dated 28 September 2001, containing reference information for discussion with the Commissioner. The document did not contain any specific conclusions or recommendations, and focussed only on gasoline and diesel automotive fuels in the St. John's area. The information, therefore, did not provide an analysis of historical prices and price differentials for all petroleum products throughout the Province. Such an analysis would have provided the Commissioner with a basis for the development of criteria for establishing pricing zones.

2. **Conflict of Interest.** A potential conflict of interest situation was identified in that the fiancée of an employee of the Commissioner was paid $1,000 relating to work performed for the Commissioner.

Recommendations

The Commissioner should:

- *obtain the information required by the* Petroleum Products Regulations *before changing zone boundaries and establishing maximum wholesale and retail prices;*

- *carry out enforcement and monitoring activities as provided for in the* Petroleum Products Act and Regulations*; and*

- *strengthen processes and controls relating to expenditures.*

Commissioner's Response

It is acknowledged that historical pricing data for petroleum products charged to retailers and consumers throughout the province was not used to establish initial fuel pricing regulations for maximum wholesale and retail prices. However, where historical data was available, although limited for all regions outside the St. John's metropolitan area, it was used.

It must be emphasized that fuel price regulation in this province is new and innovative, and the processes as well as the fundamental bases developed and initiated for regulation purposes did not exist at the time the Commissioner's office was established. Furthermore, the office came into being as of May 25, 2001 with no resources, either human resources or technical support, with a mandate to establish controls in a very restrictive time frame.

The establishment of the office of the Petroleum Pricing Commissioner was challenged to have fuel pricing regulation in effect within a very restrictive time frame with a minimum of resources and extremely limited budget. Hence, the need was imminent for expert advice and assistance in order to accomplish the challenge.

A search within the province at the time revealed that a readily available consultant with the education, expertise and experience necessary to accomplish the initial challenge of establishing a base price, pricing zones, and zonal pricing was extremely limited. In fact, Myers Consulting was the only firm available wherein these requirements were readily available.

The hourly rate quoted by the consultant for the performance of his initial work is approximately ½ the hourly rate published for professional engineers, and a mere fraction of professional fees charged by senior chartered accountants and lawyers for their work.

The initial work of the consultant was to establish a fair and reasonable criteria for the designation of Pricing Zones and Sub-Zones within the province for the purposes of implementation and administration of the Petroleum Products Act. Given the restrictive time frame in which he operated, and the scarce resources available, the completion of the initial work was exemplary and cost efficient.

Because of a shortage of resources in the initial stages of development of the model for regulation, a decision was made to utilize the expert skills of the consultant during the first year, based on the quoted hourly rate.

Inspections and investigations have been limited for the period covered by the Auditor General's report because of lack of resources available to carry out the work. The situation has now improved and procedures are being developed for implementation of inspections and investigations in the near future.

It is acknowledged that periodic reports written on a monthly or quarterly basis, have not been requested. However, the necessary resources to both obtain and process such information are not yet available to the Commission. At this time, forms for such reports are being designed, but a data base for processing and human resources for completing the work are not available.

Conflict of Interest

With respect to the potential conflict of interest, the Commissioner's office required the development and implementation of a registration data base in order to establish strong communications links with the entire downstream petroleum industry in the province. The development of this data base required software programming that did not exist. Inquiries from the private sector indicated a cost of approximately $10,000.00 to design and implement the software, as well as additional cost to train staff.

In addition, the PPPC had to develop a website and establish it on the internet, as well as provide training for the administration of the site. Preliminary estimates for the work ranged from $3,500.00 – $5,000.00.

The fiancée of a staff member, who is eminently qualified in the field of computer science volunteered to do both services for the Commission at no charge. In addition, she provided training and support for the data base and website for an extended period following implementation.

The decision to provide an honorarium for her services was made following consultation with the auditors for the Commission, and was paid at the discretion of the Commissioner. It represents a token of appreciation for outstanding work at significant savings for the province.

Recommendations

The Commissioner should obtain the information required by the Petroleum Products Regulations before changing zone boundaries and establishing maximum wholesale and retail prices;

In 2002, the Commission undertook a research project that determined the marine transportation costs associated with delivery of petroleum products to the province.

2.17 Review of the Office of the Commissioner of Petroleum Products Pricing

In 2003, our office is undertaking an extensive study of Storage and Distribution costs for petroleum products through out the province. Results of this research will address the concerns expressed by the Auditor General with respect to pricing zones and regulations.

The Commissioner should carry out enforcement and monitoring activities as provided for in the Petroleum Products Act and Regulations;

The legislation and regulations governing the operations of the Commissioner's office is new and requires adjustment in order to provide the Commissioner with strengthened abilities in this area of operation. Amendments to the Act are pending and scheduled to come before the House of Assembly in the near future.

The Commissioner should strengthen processes and controls relating to expenditures;

Processes and controls relating to expenditures have been implemented, including most recently the public tendering process for major contract work.

Conclusion

In conclusion, the office of the Commissioner of Petroleum Products Pricing is held to be achieving the mandate of stability, fairness, and transparency of pricing of petroleum products in the province. The period covered by the Auditor General is the initial period of operation and the legislation and regulations are new and innovative to the province, as well as in Canada as a whole. While expert experience and assumption assisted in the initial development of the pricing model, the spirit and intent of the legislation and regulations were followed to the best of our ability within the limitations of time, budget, and resources allocated to the office.

2.17 Review of the Office of the Commissioner of Petroleum Products Pricing

2.18 Child Care Services

Introduction

The *Child Care Services Act* and *Child Care Services Regulations* provide the legislative framework for control over the provision of child care services in the Province. Under the *Act*, child care refers to the care and supervision of a child for a part of a day by a person other than the child's parent, guardian, relative, other caregiver, or a person employed by one of these individuals to care for the child in the child's home.

For purposes of the *Act*, children may be cared for in either a licensed child care centre, in a licensed family child care home, or in a family child care home affiliated with a licensed child care agency. A licensed child care centre is defined as a location other than a home and has a maximum enrolment of 60 children while a licensed family child care home is defined as a provider's home which has a maximum of 6 children. As at 31 January 2003, there were 139 licensed child care centres and 2 family child care agencies throughout the Province. There were also 33 family child care homes affiliated with the 2 agencies. Total maximum approved enrolment was 4,606 children.

The Minister of Health and Community Services has overall responsibility for child care services in the Province. There is a Provincial Director of Child Care Services at the Department who has two staff. The Director is required to review, monitor and update child care policies, establish standards and qualifications for persons involved in child care delivery, and determine licensing and facility requirements. Under the Province's *Health and Community Services Act*, the six regional health and community services boards are responsible for the day-to-day administration of the provisions of the legislation within each region, with respect to the licensing and monitoring of child care services in the region.

The Department of Government Services and Lands, based on an agreement with the Department of Health and Community Services and the six regional health and community services boards, is responsible for conducting inspections of all licensed child care facilities. Under the agreement, inspectors located at the various Government Service Centres are responsible for conducting fire, life and safety, and environmental health inspections for the facilities.

Scope and Objectives

We completed our review of child care services in March 2003. The objectives of our review were to determine whether there were adequate systems and processes in place to:

- identify all providers of child care services in the Province required to be licensed under the *Child Care Services Act* and *Regulations*;

- ensure that applicants approved for child care licences meet the application requirements of the *Child Care Services Act* and *Regulations*;

- monitor child care facilities to determine whether they are operated in accordance with the *Child Care Services Act* and *Regulations*; and

- ensure that annual fire, life and safety, and environmental health inspections are conducted for all child care facilities.

Our review covered the period from June 1999 to March 2003. As part of our review, we examined the records of the Department of Health and Community Services, the St. John's Regional Health and Community Services Board, the Western Regional Health and Community Services Board, and the two family child care agencies. We also reviewed the records of the Department of Government Services and Lands in relation to inspection of the various child care facilities.

Conclusions

Although the Department of Health and Community Services has overall responsibility for the child care services program, it has not adequately monitored and controlled the delivery of the program. For example, the Department did not release its approved policies relating to the *Child Care Services Act* and *Regulations* until November 2001, 29 months after the *Act* came into force. While some draft policies were available prior to November 2001, staff at the six regional health and community services boards did not have formal policy direction from the Department for use in administering the legislation.

As well, while the Department receives an annual report from each of the six regional health and community services boards, these annual reports are on the overall operations of the regional boards and are not specific to the child care services program. The Department also receives monthly statistical reports from each of the six regional health and community services boards; however, these reports do not include any information relating to visits by regional staff to monitor the operations of the child care facilities.

Identification of Providers of Child Care Services

Neither the St. John's Regional Health and Community Services Board nor the Western Regional Health and Community Services Board take the initiative to actively investigate whether there are any unlicensed child care service providers in their region. Instead, investigation of unlicensed providers is only performed in response to complaints received. Although complaints in the St. John's region are investigated, since June 1999 the Western Board has not conducted any on-site investigations resulting from complaints received.

Licensing of Child Care Facilities

Although licences are being issued to child care facilities, there are many instances where there is no evidence on file to indicate whether all licensing requirements outlined in the *Child Care Services Act* and *Regulations* were met. For example: for 16 facilities there was no evidence on file to indicate that staff had the required current certificate of conduct, first aid certificate, or immunization records; and for 21 facilities the required liability insurance had expired, the Province was not listed as an insured party as required, or the insurance policy did not provide coverage for the maximum number of children for which the centre was licensed. There was also 1 facility for which there was no evidence on file to show that any of the licensing requirements were met.

The *Child Care Services Act* was not complied with in that the two family child care agencies associated with the St. John's and Western regional boards were not licensed as required when they commenced operations in 2000. In fact, one agency was not licensed until 15 April 2003 and the other was not licensed until 11 June 2003. These agencies are responsible to ensure that all of the 33 affiliated family child care homes meet the requirements of the *Child Care Services Act* and *Child Care Services Regulations*.

Monitoring Providers of Child Care Services

Not all child care facilities are being monitored in accordance with the policies established by the Department of Health and Community Services. Although policy requires that a formal annual evaluation be prepared for each facility, we found that in St. John's, none of the required annual evaluations were prepared. Furthermore, although policy requires that monthly visits be conducted where possible, we found instances at both Boards where these monthly visits were not conducted.

As a result of the monitoring that was performed, violation orders were issued for matters such as: a 5 year old child was left unattended in a van in a supermarket parking lot; a 3 year old child was left unattended outside a centre; a child was administered medication, not as prescribed, resulting in an overdose; a bus driver did not have the required driver's licence or current certificate of conduct; food was not handled as required; the ratio of children to staff was exceeded; and a child younger than the licence age restriction was at a centre. We found instances where there was inadequate documentation to support the final resolution of the violations identified.

Violation orders are not always issued when warranted. For example, there were 4 centres which had a combined total of 31 health and safety violations for which no violation orders were issued as of March 2003. These violations included such things as: children left unattended; fire exit blocked; garbage left uncovered; emergency lighting not working; inadequate food servings; child to staff ratio exceeded; and lack of cleanliness. Discussions with Board officials indicated that any violation involving a child left unattended would be serious enough to have a violation order served and posted.

Inspections of Child Care Facilities

The required annual fire, life and safety, and environmental health inspections are not always being conducted by the Department of Government Services and Lands. For example, there were 20 facilities (17 family child care homes and 3 child care centres) known to be in operation but not included in the Department's database. Therefore, these facilities were not subjected to the required annual inspection. Furthermore, for the facilities included in the database and required to be inspected, we found that 45 did not have the required annual fire, life and safety inspection conducted since February 2002 and of these, 7 had not been inspected since February 2001. In addition, we found that 77 did not have an environmental health inspection conducted since February 2002 and of these, 7 had not been inspected since February 2001, and for 16, the database does not indicate any inspection ever having been conducted.

Findings and Recommendations

In accordance with the *Child Care Services Act* and *Regulations*, the Minister of Health and Community Services has overall responsibility for child care services in the Province. This legislation outlines: the requirements to obtain a licence to provide child care services; the criteria for the ratio of staff to children; the required qualifications of operators and staff; and the required qualifications of staff involved in monitoring child care operations. The legislation also outlines requirements for the frequency of inspection of child care facilities and the records required to be maintained.

2.18 Child Care Services

There is a Provincial Director of Child Care Services at the Department who has two staff. The Director is required to review, monitor and update child care policies, establish standards and qualifications for persons involved in child care delivery, and determine licensing and facility requirements. Under the Province's *Health and Community Services Act*, the six regional health and community services boards in the Province are responsible for the day-to-day administration of the provisions of the *Child Care Services Act* and *Regulations* within each region, including the licensing and monitoring of child care services in the region.

At 31 January 2003, and as outlined in Figure 1, there were 139 child care centres and 33 family child care homes throughout the Province operating under the regional health and community services boards and the two agencies. Total maximum approved enrolment for these child care facilities was 4,606 children. Average enrolment was 32 children for child care centres and 6 children for family child care homes.

Figure 1

Statistics on Child Care Facilities
31 January 2003

Geographic Area	Child Care Centres	Maximum Approved Enrolment for Centres	Average Enrolment	Family Child Care Homes	Maximum Approved Enrolment for Homes	Average Enrolment	Total Maximum Approved Enrolment
St. John's	89	3,177	36	18	106	6	3,283
Eastern	9	224	25	-	-	-	224
Western	14	366	26	15	88	6	454
Central	15	332	22	-	-	-	332
Grenfell	1	24	24	-	-	-	24
Labrador	11	289	26	-	-	-	289
Total	**139**	**4,412**	**32**	**33**	**194**	**6**	**4,606**

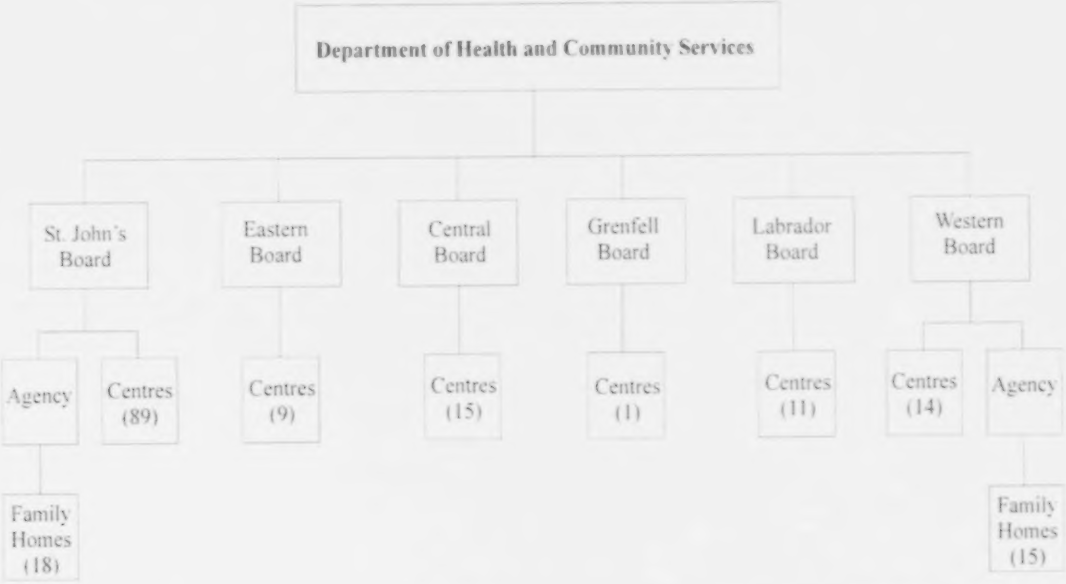
Source: Regional Health and Community Services Boards

Of the 33 family child care homes indicated in Figure 1, 18 were in the St. John's region and affiliated with the Family and Child Care Connections - Family Child Care Agency while the remaining 15 were in the Western region and affiliated with the Family Outreach Resource Centre Family Home Child Care Agency. Both these agencies were part of a two-year pilot project commenced by the Province in 2000. The project was later extended for a further year to 31 March 2003. The pilot project was intended to support family child care providers in their delivery of quality child care. The agencies approve, support and monitor family child care homes within the regions, under the support and supervision of the applicable regional health and community services board.

The organizational structure of the child care services program is outlined in Figure 2.

Figure 2

Organizational Structure
Child Care Services Program


Department of Health and Community Services
St. John's Board
Eastern Board
Central Board
Grenfell Board
Labrador Board
Western Board
Agency
Centres (89)
Centres (9)
Centres (15)
Centres (1)
Centres (11)
Centres (14)
Agency
Family Homes (18)
Family Homes (15)

2.18 Child Care Services

Our review of the child care services program indicated the following:

Department of Health and Community Services

Although the Department of Health and Community Services has overall responsibility for the child care services program, it has not adequately monitored and controlled the delivery of the program. For example:

- Although the *Child Care Services Act* came into effect in June 1999, the Department did not release its approved policies until November 2001, 29 months after the introduction of the *Act*. While some draft policies were available prior to November 2001, staff at the six regional health and community services boards did not have formal policy direction from the Department for use in administering the legislation.

- While the Department receives an annual report from each of the six regional health and community services boards, these annual reports are on the overall operations of the regional boards and are not specific to the child care services program.

- While the Department holds quarterly meetings with the regional directors and receives monthly statistical reports from each of the six regional health and community services boards, these monthly reports only provide subsidy and licensing statistics. The statistics include the number of licensed centres opened, closed and currently operating in the regions, but do not include any information relating to visits by regional staff to monitor the operations of the child care facilities.

Identification of Providers of Child Care Services

In order to have an effective child care services program, it is important that all service providers be identified and monitored to ensure that services provided are in compliance with the *Act* and *Regulations*. Both the St. John's Regional Health and Community Services Board and the Western Regional Health and Community Services Board maintain a computerized listing of all licensed child care centres in their region. The identification of child care providers is a difficult task and one of the most successful procedures to help identify unlicensed service providers is to follow-up on complaints and tips received.

Our review indicated the following issues:

- Neither Board takes the initiative to actively investigate whether there are any unlicensed child care service providers in their region.

- Although complaints of unlicensed child care facilities in the St. John's region are investigated, since June 1999 the Western Board has not conducted any on-site investigations resulting from complaints received. Board officials at the Western region indicated that during the period from June 1999 to September 2000 policies were being developed in conjunction with the Department, and that complaints received after September 2000 did not warrant investigation.

- There was incorrect information maintained on 6 of the 89 child care centres in the St. John's region database. These errors included incorrect information on the number of licensed spaces, the licence number, the age range of children, and the licence expiry date.

Licensing of Child Care Facilities

The *Child Care Services Act* and *Child Care Services Regulations* outline a number of application requirements relating to the issuance of a licence to operate a child care service. These requirements include such things as: premises which comply with specified health, safety and other standards; appropriate references; operators and staff with educational and employment experience; current records of immunization for operators, their staff and volunteers; a current certificate of conduct; a current first aid certificate; and liability insurance.

When the *Child Care Services Act* came into force in June 1999, there was a transitional provision which required that all existing child care service providers be licensed under the new *Act* within one year, i.e. June 2000. Licences can be in effect for a maximum of three years and before 60 days prior to the expiration of the licence, the service provider must apply for a new licence.

We reviewed files at the St. John's Regional Health and Community Services Board, the Western Regional Health and Community Services Board, and the family child care agency associated with each board. Our review indicated that licences are being issued to child care facilities which are not in full compliance with the licensing requirements outlined in the *Act* and *Regulations*. Details of our findings are outlined by region.

2.18 Child Care Services

1. Licensing - St. John's Board

Of the 89 child care centres in the St. John's region, we reviewed the files of 22 of these centres to determine whether the licensing requirements had been met. Our review identified the following issues:

- For 2 centres there was insufficient evidence to support the approval of a licence. For 1 of these centres, there was no application on file and for the other centre no documentation was on file to support whether any of the licensing requirements had been met.

- There were 9 centres that operated for a period of time during our review without evidence of the centres being licensed. The period of operation without a licence ranged from 12 days to 2 ½ years.

- There were 16 centres licensed under the *Day Care and Homemaker Services Act (1975)* prior to the *Child Care Services Act* coming into force in June 1999; however, 11 of these 16 were not licensed under the new *Act* within the required one year period subsequent to June 1999.

- For 6 centres there was no evidence on file to indicate that centre staff had the required current certificate of conduct, first aid certificate, or immunization records.

- For 6 centres there was no evidence that a paper copy of the licence was prepared and issued for display at the centre.

- For 11 centres which received a combined total of 16 renewed licences, none applied for the renewed licence before 60 days prior to expiry of the previous licence as required. The length of time between the application date for the new licence and expiry date of the old licence ranged from the day before to 57 days before the expiration date. As a result of the late application, in 2 instances for one centre, new licences were not approved until after the old licence had expired which resulted in the centre operating without a valid licence.

- For 19 centres the licensing summary form used when renewing a licence was not signed by the child care service provider to indicate they were aware of any issues raised.

- For 11 centres there was an issue relating to the required liability insurance. For 6 of the 11, the insurance had expired, and for the remaining 5 the Province was not listed as an insured party as required.

- For 2 centres there was insufficient evidence to support that the required child immunization records were maintained by the centres.

- Although the *Child Care Regulations* require that staff at the centres obtain the required level of certification by June 2003, the Board has not been enforcing these requirements for either staff employed prior to or after the *Act* coming into force. The Board believes that an extension of this grace period will be granted.

2. Licensing - Western Board

Of the 14 child care centres in the Western region, we reviewed the files of 5 of these centres to determine whether the licensing requirements had been met. Our review identified the following issues:

- For 4 centres there was no evidence on file to indicate that centre staff had the required current certificate of conduct, first aid certificate, or immunization records.

- There was 1 centre licensed although the operator did not have the required minimum two years experience.

- For 4 centres the Province was not listed as an insured party as required on the centre's liability insurance and for 1 of these 4 centres, the insurance policy did not provide coverage for the maximum number of children for which the centre was licensed.

- For 1 centre the licence allowed for more children than the available space permitted based on the *Regulations*. The *Regulations* state that floor space per child has to be a minimum of 3.3 square metres. In this case, the centre was licensed for 49 children, while its capacity was only 42.

3. Licensing - Family Child Care Agencies

There is a family child care agency associated with the St. John's Regional Health and Community Services Board and another associated with the Western Regional Health and Community Services Board. In St. John's the agency is the Family and Child Care Connections - Family Child Care Agency while on the west coast the agency is the Family Outreach Resource Centre Family Home Child Care Agency. Both of these agencies have family child care homes affiliated with them. These agencies are responsible to ensure that all of these affiliated family child care homes meet the requirements of the *Child Care Services Act* and *Child Care Services Regulations.*

Both agencies started as a two-year pilot project to end 31 March 2002 and were not licensed during that period. Although the project was extended another year to 31 March 2003, the Family and Child Care Connections - Family Child Care Agency was not licensed until 15 April 2003, and the Family Outreach Resource Centre Family Home Child Care Agency was not licensed until 11 June 2003. We reviewed the files of family child care homes affiliated with these agencies to determine whether the homes met the requirements as outlined in the *Act* and *Regulations*. Our review indicated the following:

(a) St. John's Agency

Of the 18 family child care home providers affiliated with the St. John's agency, we reviewed files of 5 of these providers to determine whether the application requirements had been met. Our review identified the following issues:

- None of the homes had the required municipal approval on file.

- For 2 homes there was an issue relating to the required liability insurance. In 1 of the homes the required insurance had expired while in the other home, the Province was not listed as an insured party as required.

- For 2 homes there was no evidence on file to indicate that every individual had the required current certificate of conduct.

(b) Western Agency

Of the 15 family child care home providers affiliated with the Western agency, we reviewed files of 4 of these providers to determine whether the application requirements had been met. Our review identified the following issues:

- None of the homes had the required municipal approval on file.
- There was no evidence on file for any of the homes indicating that every individual providing child care services had the required current certificate of conduct, first aid certificate, or immunization records.
- For 2 homes, there was no evidence on file to indicate that the provider had the required education certification.
- None of the homes listed the Province as an insured party in their general commercial liability policy as required.

Monitoring Providers of Child Care Services

After child care licences are issued, it is necessary for the Boards to monitor the licensees to determine whether they operate in accordance with the requirements of the *Child Care Services Act* and *Child Care Services Regulations*. The *Act* provides various compliance and enforcement options for enforcement of the *Act*. These enforcement options include issuing a violation order, issuing a varied licence, suspension or cancellation of a licence, refusal to renew a licence, as well as issuing a monetary fine.

The Department of Health and Community Services developed policies outlining the monitoring activities that must be undertaken to determine whether child care service providers operate in accordance with the requirements of the *Act* and *Regulations*. These policies include the requirement to make monthly visits where possible to child care service providers and to formally evaluate each provider at least annually or more frequently if the situation requires.

We reviewed files at the St. John's Regional Health and Community Services Board, the Western Regional Health and Community Services Board, and the family child care agency associated with each board. Our review indicated that not all child care facilities are being monitored in accordance with the policies established by the Department of Health and Community Services. Details of our findings are outlined by region.

2.18 Child Care Services

1. Monitoring - St. John's Region

Of the 89 child care centres in the St. John's region, we reviewed the files of 22 of these centres to determine whether they were monitored by the Board in accordance with policy. Our review identified the following issues:

- None of the 22 centres had the required formal annual evaluation completed. While a licencing summary form is used by the Board when renewing a licence, this form does not always provide enough information to determine whether the required formal annual evaluation was completed.

- For 1 centre, there was no evidence of a visit by a child care consultant for a two year period, during which time two licenses were issued.

- For 3 of the centres we found health and safety issues identified by an inspector for which no violation order was issued. There were 4 violations for one centre, 5 for another and 11 violations for the remaining centre. Examples of violations included: child left unattended; fire exit blocked; garbage left uncovered; and emergency lighting not working.

  Discussions with Board officials indicated that any violation involving a child left unattended would be serious enough to have a violation order served and posted; however, these officials could offer no explanation as to why no violation order was served in this instance.

For 12 of the 89 centres there have been 13 violation orders issued by the regional director since 2000. Examples of the violations included: a 5 year old child was left unattended in a van in a supermarket parking lot; a 3 year old child was left unattended outside a centre; a child was administered medication, not as prescribed, resulting in an overdose; a bus driver did not have the required drivers licence or current certificate of conduct; food was not handled as required; the ratio of children to staff was exceeded; and a child younger than the licence age restriction was at a centre. Our review of these 13 violation orders indicated:

- For 3 of these 13 violation orders there was inadequate documentation to determine whether follow-up visits were completed.

- For 6 of the 13 violation orders, there was no evidence on file to indicate that the order was either posted at the centre or served to the operator as required by the *Child Care Services Act*.

- For 2 of the centres in receipt of a violation order, there was no evidence on file that the centre had an approved licence at the time the violation order was issued.

2. Monitoring - Western Region

Of the 14 child care centres in the Western region, we reviewed the files of 5 of these centres to determine whether they were monitored by the Board in accordance with policy. Our review identified the following issues:

- For 1 centre there was only one monthly visit after the centre's initial licence was issued in September 2002.

- In 1 centre Board staff identified several contraventions of the legislation during a monthly visit in September 2002 and noted that follow-up was required. However, no additional on-site visits occurred until an investigation was conducted in January 2003, in response to complaints received in December 2002. This investigation identified 11 violations of the *Child Care Services Act* and *Regulations*, including: children left unattended; inadequate food servings; child to staff ratio exceeded; and lack of cleanliness. No violation order or other enforcement option had been used to address the matter as of March 2003. Subsequent to our review, Board officials indicated that a violation order had been issued.

- In 4 centres there was inadequate documentation on file to indicate whether staff had the required qualifications and there was no documentation to indicate that the matter was followed-up.

3. Monitoring - Agencies

At the time of our review, there were a total of 33 family child care home providers affiliated with the two family child care agencies - 18 homes under the Family and Child Care Connections - Family Child Care Agency and 15 homes under the Family Outreach Resource Centre Family Home Child Care Agency.

These agencies, while accountable to their Board in the St. John's region and the Western region, are responsible to monitor the homes in accordance with the policy established by the Department of Health and Community Services. Our review of the monitoring activities of the two agencies indicated the following:

(a) St. John's Agency

Of the 18 family child care home providers under the Family and Child Care Connections - Family Child Care Agency, we reviewed the files for 5 providers to determine whether they were monitored by the Agency in accordance with policy. Our review identified for 3 homes, the required monthly visits were not always conducted. The number of monthly visits missed ranged from 1 to 3.

(b) Corner Brook Agency

Of the 15 family child care homes under the Family Outreach Resource Centre Family Home Child Care Agency, we reviewed the files for 4 providers to determine whether they were monitored by the Agency in accordance with policy. Our review identified the following issues:

- The Agency did not conduct any monthly visits from August 2000, when the Agency was established, to January 2001.
- Subsequent to January 2001, i.e. when monthly visits commenced, visits were not always conducted on a monthly basis. For 3 homes, the number of monthly visits missed ranged from 1 to 6.

Inspections of Child Care Facilities

In 1999, the Department of Government Services and Lands, the Department of Health and Community Services and the six regional health and community services boards entered into an agreement whereby inspectors with the Department of Government Services and Lands are responsible for conducting annual fire, life and safety, and environmental health inspections for the various child care facilities in the Province.

2.18 Child Care Services

We reviewed the records of the Department of Government Services and Lands relating to inspections conducted by its staff. The Department's regional Government Service Centre offices are responsible for conducting the annual inspections for all types of child care service providers. When inspections have been completed, copies of the reports are sent to the Department's Head Office for entering into its database.

Our review indicated that the Department's database of facilities is neither complete nor accurate and that the required annual inspections are not always being conducted. For example:

1. Database

The Department's database is used to identify child care facilities for inspection purposes and for recording completed inspections. We reconciled the listings of facilities maintained by the six boards to the database to determine whether all facilities were recorded. We also checked 27 files for the St. John's region and 9 files for the Western region to the database to determine whether the associated inspection information was recorded.

While the six regional health and community services boards have identified a total of 172 child care facilities in the Province, the Department's database included only 167 facilities, a difference of 5 facilities. This difference resulted from the omission of 20 facilities (17 family child care homes and 3 child care centres) listed by the boards, as well as the inclusion of 15 facilities (8 family child care homes and 7 child care centres) which were not included in the number of facilities listed by the boards. These 15 facilities have either ceased operating or have been identified for inspection for licensing purposes.

Our review of the database used by the Department indicated the following:

- The database is incomplete in that 17 family child care homes and 3 child care centres are not included.

- The database is not accurate in that it is not always updated with inspection report information on a timely basis. For example, although the file for one facility indicated that inspections were conducted in September 2002 for fire, life and safety and in October 2001 for environmental health, the database indicated that these inspections were last conducted in 1998.

2. Inspection Records

Annual inspections are required under the *Regulations* to ensure that child care facilities conform to required fire, life and safety, and environmental health standards. In February 2003, we reviewed the Department's database to determine whether the required annual inspections had been conducted. We found that the required annual inspections were not being conducted as required. In particular:

- There were 20 facilities (17 family child care homes and 3 child care centres) known to be in operation but not included in the Department's database. Therefore, these facilities were not subjected to the required annual inspection.

- For the 167 facilities included in the Department's database, 17 are located in schools and under the *Act* are not subject to inspection. A further 15 facilities (8 family child care homes and 7 child care centres) have either ceased operating or have been identified for inspection for licensing purposes. For the remaining 135 facilities included in the database at February 2003 and required to be inspected, we found that:

    - 45 (33%) of the facilities did not have the required annual fire, life and safety inspection conducted since February 2002 and of these, 7 had not been inspected since February 2001.

    - 77 (57%) of the facilities did not have an environmental health inspection conducted since February 2002 and of these, 7 had not been inspected since February 2001, and for 16, the database does not indicate any inspection ever having been conducted.

Recommendations

The Department of Health and Community Services should improve its processes for monitoring and controlling the delivery of the child care services program and ensure that the requirements of the Child Care Services Act *and* Regulations *are being complied with in identifying, licensing, monitoring and inspecting child care facilities in the Province.*

The St. John's Regional Health and Community Services Board and the Western Regional Health and Community Services Board should comply with the requirements of the Child Care Services Act *and* Regulations *and the Department's policies. Specifically the Boards should ensure that all providers of child care services are identified, licensed and monitored.*

The Department of Government Services and Lands should ensure that annual fire, life and safety, and environmental health inspections are conducted for all child care facilities as required under its agreement with the Department of Health and Community Services and the regional health and community services boards.

Department of Health and Community Services' Response

The Child Care Services Act *was proclaimed in 1999. The legislation introduced new models of child care to the province. At the same time the Department of Health and Community Services moved from line authority to a delegated regional structure for the delivery of services. The new organizational structure necessitated a further review and revisions to the draft policies developed in anticipation of the new legislation. This delayed finalization and distribution of policies.*

As part of the new structure a Director of Child Care Services was appointed in each region. This position has responsibility for licensing child care services. Regular meetings between regional directors and provincial officials were held as they began to fulfill their new responsibilities. These meetings continue to be held at least quarterly to discuss issues of concern to either provincial or regional staff. Additionally, conference calls are held with directors when required and provincial staff consult with regional staff on specific issues. The department and the boards are working jointly to develop mechanisms to ensure that all programs are audited and monitored. Consideration will be given to requesting an annual report on child care services.

The directors in the regions investigate all complaints of alleged illegal child care if sufficient information is provided by a referral source. Informational materials have been distributed to the public to explain the types of child care services which must be licensed. The random inspection of homes to determine compliance with child care services legislation is not feasible and is not recommended.

The Department will continue to work with the Regional Boards to support quality child care services for children in the province.

St. John's Regional Health and Community Services Board's Response

This report focused on files from 1999 to 2003. Since 1999 the Board has realized a number of significant improvements as a result of clarification of policy and access to additional resources.

As acknowledged in the report, the Child Care Services program has undergone significant change over the past four and a half years. The proclamation of the Child Care Services Act *and* Regulations *in June 1999 has resulted in a number of significant changes in the requirements for child care providers, licensing, monitoring and inspection of child care settings. The Board has been working closely with the Department of Health & Community Services towards amendments of the* Act *and revisions of the* Regulations. *We have also provided feedback to the Department on the development and revision of policies to support the legislation.*

The Board recognizes that there are opportunities to improve compliance with some areas of Child Care Services policies. Our response will outline a number of strategies that have already been implemented to address the issues identified in your report. It will also identify a number of factors that contributed to these findings and will contribute to the resolution of identified issues.

Child Care Services Legislation and Policies

The report acknowledges the 29 month delay between the proclamation of the Child Care Services Act *and* Regulations *in June 1999 and the release of the Child Care Services policies in November 2001. At the request of the Department of Health & Community Services, we initiated a process to elicit feedback about the documents and facilitated 6 focus groups with stakeholders. As a result of this feedback, a number of changes to the* Child Care Services Act, Regulations *and policies were proposed. While the* Act *was amended in December 2001, revisions to the* Regulations *and policies are ongoing. A number of changes have also been proposed due to the challenges experienced in implementing the existing policies. Over time a number of policies have undergone a series of revisions, which has required continuous changes in standards for licensing and monitoring.*

2.18 Child Care Services

Annual Report to Department of Health & Community Services

The report notes that the Board only provides monthly statistical reports to the Department. The Regional Director prepares a monthly and annual report on the overall status of the Child Care Services program for Senior Management and the Board and these reports will be forwarded to the Department in the future.

Identification of Providers of Child Care Services

The report indicates that the Board does not take the initiative to actively investigate whether there are any unlicensed child care service providers in the region. Under the Child Care Services Act*, the Board has no mandate to carry out this activity, however, the Board takes seriously all complaints under Section 3 (Non application) and Section 6 (License required) of the* Act *and regional staff investigate the validity of all complaints and take appropriate action. In all cases where family home child care is provided outside the legislation, providers are also referred to the Family Child Care Agency and encouraged to be approved through that process if they are not interested in being licensed individually. The Board has also sought legal advice in some circumstances under these sections of the legislation. Further, the Board has sought provincial clarification about the responsibility to license daycamps, which has resulted in exemption of daycamps from licensing under this* Act*, and homework clubs, which are currently under review.*

Child Care Centre Database

Prior to the proclamation of the Child Care Services Act *and* Regulations*, the Department of Health & Community Services maintained the database of licensed facilities. There was a delay in provision of this database to the Board and the expiry date for centre licenses was not clear. In the absence of a comprehensive database, in February 2001 the Board developed a new Child Care Services database that reflected the status of licensed centres at that time. A process has been established to review and ensure accuracy of the database and a process has been implemented to update the database monthly.*

2.18 Child Care Services

Licensing of Child Care Facilities

Health and Security Requirements

Requirements such as certificates of conduct and insurance provide good examples of the challenges of emerging policy. The Child Care Services Regulations *refer only to the requirements for a current certificate of conduct and a current commercial general liability insurance policy. The details about the time lines and the insurance requirements did not emerge until the policy was released 29 months after enforcement of the* Act.

The Board has made significant improvements in tightening timelines for required documentation. Child Care Services staff have been working with licensees to provide education about the requirements for staff and there has been an improvement noted in the comprehensiveness of job ads posted to recruit new staff.

The issue of current insurance is further complicated by the licensee's difficulties in obtaining appropriate documentation from the insurer. Many insurers will not provide the licensee with proof of insurance until after a licensing certificate has been issued. The Board has worked closely with the province to advocate to insurers about the need for timely provision of the appropriate insurance documents.

Evidence to Support Approval of a License

The Board recognized the need to improve licensing documentation and in February 2001, a Licensing/Relicensing Summary was developed as a standardized approach to ensure all required documentation was completed. This tool has been further refined and reflects all requirements for licensing. Licensees are not required to sign this form; rather they sign the licensing or relicensing application. Any outstanding issues at the time of licensing are included in the licensing letter that is sent to the licensee.

Lapses in Licensing and Requirement to Relicense Existing Centres by June 2000.

In some cases lack of documentation of licensing was a factor. The documentation process has now been standardized and reflects all requirements for licensing. In other circumstances, due to the unavailability of a licensing database, the Board was not able to confirm that licenses had expired. Once confirmation of expired licenses was received relicensing was completed.

Regional resources did not permit the relicensing of all centres within the first year after proclamation of the legislation. The Board advised the Department of Health & Community Services about the challenges this posed and received support to delay this process. In November 2000, the province directed the Board to meet all the requirements of the legislation and a process to address licensing was developed early in 2001. All centres in the St. John's Region have now been relicensed.

Paper Copy of License

The Board recognizes the importance of verification of licensure. All centres in the Health & Community Services - St. John's Region have now been issued paper copies of the license.

Renewal Notification

The Board has developed a system to identify centres due for renewal. All centres are notified well in advance about the requirements for renewal and a number of opportunities have been employed to educate licensees about this requirement. Challenges with staff turnover in child care facilities and delays in receipt of insurance verification and Government Services inspection dates often resulted in delays with completion of the final licensing package. Communication with Government Services Centre, insurance companies and licensees has resulted in considerable improvements. Licenses are no longer issued without insurance and inspection requirements being met.

Staff Certification

The Board supports the increased education requirements for early childhood educators outlined in the Child Care Services Act *and* Regulations*. However, issues with recruitment and retention of qualified Early Childhood Educators challenge implementation of this requirement. Access to the orientation courses and required materials has been limited. Regional Child Care Services staff have successfully lobbied for improvements to these processes and course availability and program materials are becoming more accessible. This continues to be a transitional issue.*

Licensing of Family Child Care Agency

The report states that the Family Child Care Agency was not licensed until approximately three years after proclamation of the legislation. Until March 2003 the Family Child Care Agencies operated as a pilot project. There was no provincial expectation for licensing until March 31, 2003, by which time an evaluation of the pilot would be completed. At that time the

Agency did not meet all the requirements for licensing. The Agency met all the requirements for licensing by April 15, 2003 and was licensed at that time.

Monitoring Providers of Child Care Services

Annual Facility Evaluation

The Board acknowledges that policy requires a formal annual evaluation of each facility. The current annual report is under review by the province. The Board recognizes the importance of formal documentation of these processes and has recently implemented an annual assessment by Child Care Services Consultants for each licensed facility. We anticipate a final provincial annual inspection tool in the near future.

Frequency of Visits

The Board has experienced significant challenges in meeting the demands for monitoring child care facilities. While 64% of licensed child care centres and 72% of approved centre enrollment for the province is in this region, the Board does not enjoy a corresponding complement of Child Care Services staff. Since the time of this report the number of licensed centres has increased to 94, the Family Child Care Agency has been licensed and two individuals have been licensed to provide family child care placing additional demands on the limited number of resources. While the highest ratio in any other region of the province has one social worker and one child care services consultant to 15 centres; in this region the ratio of social workers to centres is 1:21 and the ratio of child care services consultants to centres is 1:47. This ratio does not include support to family child care.

With provincial funding, the Board has put additional resources to the Child Care Services program and in spite of continuing resource challenges has achieved improvements in monitoring and surveillance of child care facilities. The average number of visits to each centre per year has gone from 4-6 in 2000 to 10 in 2003. In addition to routine visiting, when issues or concerns about a particular facility arise, there is an increase in the frequency of visits.

Documentation

Documentation by Child Care Services staff has been inconsistent. Child Care Services staff have been instructed about the importance of timely and accurate documentation and improvements have been noted. In addition, the development of the annual Child Care Services Consultants Assessment tool is designed to standardize documentation of child care facility visits.

Violation Orders

The Board supports the process for dealing with complaints outlined in the Provincial Child Care Services Act: Standards and Policy Manual, which recognizes that Violation Orders are not necessarily the first approach to dealing with complaints against child care facilities. Child Care Services staff have a number of options to consider in order to bring a child care service to an acceptable level, dependent upon the seriousness of the issue and any associated risk to the children. In some cases a discussion with the licensee may be sufficient to remedy the concern. In others violation orders are the most responsible approach.

The Board has realized significant improvements in the consistency of the process for Violation Orders and procedures are now in place to standardize this process. All complaints are now discussed with the Director of Child Care Services. Where the issue poses a threat to children and/or where other attempts to address the situation have been unsuccessful, violation orders are now consistently issued.

While managers have met with staff to ensure that appropriate action and remediation has taken place when Violation Orders have been issued, a process for file audits to ensure appropriate documentation and follow up is being developed. A professional development session on appropriate documentation was also made available to all Child Care Services Social Workers.

Since February 2003 Child Care Services staff are required to sign an Affidavit of Service to document delivery of the Violation Order to the licensee. Staff are also required to make a follow up visit to the centre to ensure the visibility of the violation order.

Inspections of Child Care Facilities

A number of meetings have taken place with Government Services Centre towards improving the timeliness of annual inspections. In the past, inspection dates were only verified at the time of relicensing. A process has now been initiated that requires that Child Care Services staff contact Government Services Centre at the time inspection dates are due for renewal. While this approach has improved the request for this information, we are continuing to work with Government Services Centre to address challenges.

Summary

Since 1999, Health & Community Services - St. John's Region has made significant improvements in its implementation of the Child Care Services Act, *and in the monitoring of Child Care facilities in the region. The Board supports the recommendations contained in this Audit Report and will continue to work with the Department to ensure compliance with the* Act *and the provision of the best possible child care services for the children of the St. John's Region.*

Western Regional Health and Community Services Board's Response

The Child Care Services Act *and* Regulations *(Legislation) were proclaimed in June 1999. This Legislation introduced a significant shift in the delivery of Child Care Services in this Province. The new Legislation introduced a variety of regulated Child Care Services with the responsibility for licensing and monitoring of service delivery delegated from the Department of Health and Community Services (Department) to the Regional Health and Community Services/Integrated Boards.*

Policies governing the application of this Legislation and the delivery of services were not available to Health & Community Services Western (HCSW) staff until November 2001. During this 29 month period, from June 1999 to November 2001, service delivery was based on best practice, broad language within the Legislation, and some draft policies. As a consequence there were many challenges faced by HCSW staff and partners in the delivery of services. HCSW staff accepted these challenges and worked with the Department and others to ensure effective program development and implementation. Also, HCSW dedicated specific staff resources for this program at a central location with the aim of enhancing services.

2.18 Child Care Services

Identification of Providers of Child Care Services

- *HCSW Staff acknowledge its responsibility for conducting investigations of unlicensed Child Care Service Providers, both Group and Family Based Care. The policy does not support HCSW staff initiating investigations to seek out unlicensed providers unless there is a complaint. Following receipt of a complaint an assessment is conducted to determine as to whether or not an investigation is in order.*

- *Since June 1999, HCSW staff have assessed complaints that warranted an investigation for summer and school based (group) programs, however, there have been no complaints that led to an investigation for Family Child Care Providers.*

Licensing of Child Care Facilities

- *HCSW maintains files for each Child Care Centre licensed and operating within the Western Region. Each Child Care Centre also maintains files and are required to include documentation pertaining to Certificate of Conduct, First Aid Certificate and Immunization Records for operators, staff and volunteers working at the Centre. HCSW staff, during visits to Centres, do engage in a review of Child Care Centre administrative files to determine compliance with the documentation requirements. The operator of a Centre is notified of any documentation missing from Centre files. HCSW staff will continue to ensure reviews are conducted as required and that appropriate documentation is included on both HCSW files and Centre files.*

- *The Legislation provides that the Regional Director of Child Care services may grant approval for an operator with less than two years experience providing the licensee can demonstrate there is no operator available with at least two years experience. Based on the documentation submitted to the Director and recorded on file, approval was granted to one licensee to hire an operator with less than the two years experience.*

- *HCSW staff acknowledge that the Province was not listed as an insured party as required in policy. Many insurance companies refuse to notify the Department should a policy be cancelled, thus would not name the Department as an insured party. There have been many challenges with the current policy, and a revised draft policy through the Department is in progress.*

- *One Centre did not have insurance coverage for the maximum children approved for the Child Care Centre. The Centre had upgraded and received the appropriate license for an increase in capacity from 35 to 42 and later from 42 to 46. The insurance coverage was not upgraded at these times but this matter has now been corrected. This was an oversight at the time of the license upgrade and normal practice would ensure adequate coverage before a license is upgraded.*

- *For one centre the license allowed for more children than the available space permitted based on the Regulations. This error occurred due to a miscalculation of space by Government Service Centre (GSC) staff. This error was later corrected and a license was issued to reflect the correct capacity for this Centre.*

Licensing of Child Care Agencies

- *The Audit references concerns relating to the licensing of the Family Child Care Agency with specific concerns relating to the file documentation on care provider files. HCSW staff acknowledge the license being delayed beyond March 31, 2003, and notes that approval to continue operation beyond that date under the auspices of a "Pilot" was granted by the Department. HCSW did meet with the Sponsoring Board for the Family Agency and staff of the Department on September 4, 2002, to discuss the Family Agency's intention to pursue licensing. The Family Agency confirmed and formally notified HCSW staff, on September 19, 2002, of their intent to pursue a license.*

  In their subsequent application there were delays by the agency in providing the required documentation to HCSW staff. As a consequence the license could not be granted until June 11, 2003. Due to these delays the Department granted month to month extension of the pilot, from April to June 2003.

- *The operation of the Agency and its affiliated homes was through a pilot and licensing did not occur until June 11, 2003. Prior to the issuance of this license the Agency itself had received municipal approval. The requirement for municipal approval for the individual homes affiliated with the agency, however, had not been established at the time of agency licensing. The agency will be asked to pursue this matter with all relevant municipalities and confirm in writing the position of each municipality. Documentation of this decision will be placed on the agency file.*

- *Family Child Care Agency files do require documentation as noted. With licensing of this Agency in June 2003, HCSW staff are required to review files to determine adherence to policy concerning file documentation. Family Child Care Agency will be requested to conduct a review of its files to ensure all required documentation as noted for the pilot period is on file.*

- *The Family Child Care Agency advises that there is now evidence on file of the required education certification and HCSW staff will verify this through a file review.*

Monitoring Providers of Child Care Services

- *Planned visits to the part time center were cancelled and follow-up visits, except one, did not occur. HCSW staff do acknowledge the importance of regular visits for monitoring. In future, and in keeping with policy, visits will be conducted, where possible, on a monthly basis.*

- *HCSW staff did note contravention of the Legislation during a center visit in September 2002. Subsequent visits were made on October 22, October 30, and November 19, 2002, however, documentation of these visits were misfiled. These visits were documented in another file for the same licensee who operates another Child Care Service (two separate buildings on the same site). During the subsequent visits, staff discussed and monitored the contraventions identified in September and were satisfied that corrective action had been taken.*

  In December 2002, however, a complaint was received from the community and following assessment HCSW staff commenced a formal investigation. The investigation resulted in a formal notice of nine violations being issued to the operator in April 2003. Prior to this formal notice, HCSW staff worked with the operator in accordance with policy to correct these deficiencies. In the absence of necessary corrective action by April 2003, HCSW Staff issued formal violation orders to the Operator/Licensee. The violations did not include children being left unattended. Had HCSW staff determined serious risk to children, immediate steps would have been be taken to ensure the safety of children. This Center is now complying with the policy requirements and documentation to this effect is contained on the file.

- *Policy requires HCSW staff document on HCSW files the qualifications of the operator. Center files are required to contain documentation for all other staff.*

  HCSW staff have reviewed HCSW files to ensure operator qualifications are met and documented. Also, HCSW staff do review all center files and verify documentation of staff qualifications.

Monitoring - Agencies

- *Our records indicate there was funding provided to the Agency to support operations as a pilot prior to August 2000. Initially, this pilot was directed by the Province and HCSW staff became involved in early 2000.*

  This Agency confirms that home visits were conducted initially for the purpose of monitoring, however, due to lack of policy and extreme community resistance, the Agency ceased the monitoring aspect of home visits. Because of the resistance and negative perceptions in the community resulting from this new Legislation, there was a deliberate decision to focus on support to the providers rather than monitoring service delivery. Home visits were not documented but were occurring throughout the time frame noted and providers also visited the Agency on a regular basis for orientation.

- *The Agency has been provided sufficient staffing resources to conduct monthly home visits. HCSW staff have requested clarification in this regard from the Agency. HCSW staff will continue to ensure compliance with policy.*

Inspections of Child Care Facilities

- *Annual inspections by the GSC are required for all licensed Child Care Services. This includes all Group Care Centres, Family Child Care Homes affiliated with the Agency, and individual Family Child Care Homes licensed by HCSW staff.*

- *HCSW staff have partnered with the GSC staff in fulfilling the requirements under this Legislation. Also, HCSW staff will notify the GSC of upcoming renewals to ensure inspections are carried out in a timely manner. In addition, HCSW staff will notify of upcoming expirations should these occur in between renewal dates.*

- *HCSW staff will work with GSC to implement and formalize a process to ensure all necessary inspections are completed in accordance with the Legislation and within the parameters of the formal agreement signed by all three parties, the Department, HCSW and GSC.*

Recommendations

The Board agrees with and supports the recommendations contained in this Audit Report.

- *HCSW will continue to work with the Department in supporting its responsibility to ensure the delivery of services in accordance with the* Child Care Services Act *and* Regulations.

- *HCSW will partner with Government Services and Lands to ensure the fulfillment of all Legislative requirements for annual fire, life, and safety and environmental health inspections.*

- *HCSW commits to ensuring compliance with the* Child Care Services Act *and* Regulations *and related policies. The concerns noted in this Audit Report have provided guidance for ensuring this compliance. Also, this report has highlighted some policy areas that require further discussion and development and these will be presented at the Provincial level by the Regional Director of Child Care Services.*

Department of Government Services and Lands' Response

In 1999, the Department of Government Services and Lands, the Department of Health and Community Services and the six regional health and community services boards entered into an MOU whereby inspectors with the Department of Government Services and Lands are responsible for conducting annual fire and life safety, and environmental health inspections for various child care facilities in the province.

The annual inspection of Family Child Care Homes (FCC) was not covered under the MOU but FCC's were recognized as a "future issue". The MOU states: "The requirements for licencing family child care homes and home child care agencies are not complete at this time." To date, the GSC has not been requested to perform annual inspections of FCC's, but pre-licencing inspections have been requested and are being performed.

2.18 Child Care Services

With respect to the Findings and Recommendations described in the audit report, we offer the following response.

Inspection of Child Care Facilities

1. Database

Although they are not currently covered for annual inspection in the MOU, we have been performing pre-licence inspections of FCC's and 27 are now in the database. Inspections are performed upon receiving the request. We are currently identifying the 17 FCC's concerned and will enter them in the database.

The three child care centres noted have been identified with the auditor's assistance. These centres are in schools; consequently, we understand they are exempt from periodic inspections under section 3(2) of the Child Care Services Act

The Department acknowledges that its database has not been kept current, particularly respecting facilities in regions outside of St. John's, and will implement measures to ensure the database is kept current.

2. Inspection Records

As noted above, Family Child Care homes are not covered for annual inspection in the agreement. Child care programs in schools are exempt from periodic inspection under the Act.

The results of our review of the files for the 45 facilities that did not have the required annual fire and life safety inspection conducted are as follows:

- *17 facilities were inspected at the time of the audit but the database had not been updated; 2 facilities were no longer in business but the database had not been updated; 12 facilities were inspected late (6 had been done from 3 to 6 months late; 2 had been done 8 months late; and 4 had been done more than 12 months late) and 14 facilities are still not inspected. These have been given priority status for inspection. Of the seven facilities identified as not having had a fire and life safety inspection since February 2001, four had been inspected at the time of the audit but not recorded in the database, one was no longer in business, one has been inspected since the audit. The remaining facilities will be inspected immediately.*

2.18 Child Care Services

In the time provided for the Departmental response, it was not possible to review each of the 77 files that did not have an environmental health inspection conducted. We will ensure any inspections not done are begun immediately. An agreement has now been reached respecting the manner of conducting environmental health inspections of Family Child Care facilities and the Department will now commence to conduct those inspections.

The Department had identified this program as an area of concern during recent organizational review exercises and had begun implementing the following changes in the Summer of 2003.

- *The Program Coordinator, Senior Fire Life Safety Design Review Technician, and senior Fire Life Safety Inspector, previously in separate Divisions, have been assigned to the Engineering and Inspection Services Division (EIS). The consolidation of key program personnel within the EIS Division will support a more effective and efficient delivery of the Department's design review and inspection commitments under the MOU.*

- *The senior Fire Life Safety Inspector has been designated as the project leader for the overall development and implementation of the program and is accountable to the Director of EIS. Work has begun on the policy document for this program. The first area being developed is Part 3 of the MOU, Personal Care Homes, but the policy will address all areas including Part 4, Child Care Program. A significant aspect of the role of the project leader will be to establish clear and effective communications between the GSC and HCS as well as between GSC staff involved in the delivery of inspection services.*

- *The GSC hopes to replace the database which was transferred to the Government Service Centre from the Welfare Institutions Licencing and Inspection Authority (WILIA) with the Department's AMANDA program. The AMANDA program will enable Fire and Health inspectors province-wide to enter inspection results themselves into a common information system as well as review facility profiles and plan work schedules. The system will also provide effective management and monitoring capabilities.*

We believe that the current program improvements stemming from the Department's organizational review will address the problems. Ultimately, this will enable the Department to ensure that Fire and Life Safety and Environmental Health inspections are conducted for all child care facilities as required under the MOU.

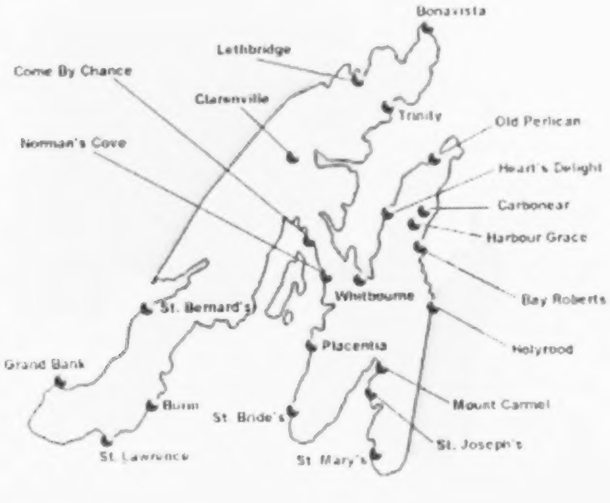
2.19 Eastern Health and Community Services Board

Introduction

The Eastern Health and Community Services Board (the Board) was established 1 January 1996 and operates under the authority of the *Health and Community Services Act*. The Board is responsible for the delivery of health services, other than hospital services, in the areas of health promotion, protection, research, public health, continuing care, mental health, addiction services, rehabilitative services, child youth and family services, youth correctional services and family and rehabilitative services. The Board offers these services from 22 communities, employing approximately 300 people. The area serviced by the Board has a population of approximately 120,000 people with its head office located at Clarenville serving the Burin and Bonavista peninsulas and the Avalon west region. Figure 1 provides an overview of the region covered by the Board.

Figure 1

Eastern Health and Community Services Board
Regional Map


Bonavista
Lethbridge
Come By Chance
Clarenville
Trinity
Old Perlican
Norman's Cove
Heart's Delight
Carbonear
Harbour Grace
Whitbourne
Bay Roberts
St. Bernard's
Placentia
Holyrood
Grand Bank
Mount Carmel
Burin
St. Bride's
St. Joseph's
St. Lawrence
St. Mary's

Source : Eastern Health and Community Services Board website

For the 2002-03 fiscal year, the Department of Health and Community Services provided the Board with operating grants of $43.8 million and specific program funds of $1.6 million. These funds were used for administration and programs as identified in Figure 2.

2.19 Eastern Health and Community Services Board

Figure 2

Eastern Health and Community Services Board
Expenditures
For the Years Ended 31 March
($ Millions)

	1996 (Note 2)	1997	1998	1999	2000	2001	2002	2003
Expenditures								
Administrative	1.7	1.2	1.8	2.9	3.3	3.8	3.7	4.2
Education	-	-	-	-	0.1	0.3	0.7	0.9
Diagnostic and Research	-	-	-	-	-	-	0.1	0.1
Home Support - Seniors	1.0	3.9	3.9	4.1	4.3	4.8	5.8	5.6
Home Support - Physically Disabled	Note 1	Note 1	Note 1	1.1	1.2	1.3	1.7	2.0
Home Support - Developmentally Delayed	Note 1	Note 1	Note 1	3.7	3.8	4.5	5.5	6.3
Continuing Care	0.1	6.5	8.4	5.0	5.5	6.2	5.8	6.5
Family and Rehabilitative	Note 1	Note 1	Note 1	4.9	5.4	6.2	6.8	6.7
Addictions	-	0.3	0.3	0.4	0.4	0.4	0.5	0.4
Health Promotion and Protection	-	0.5	0.5	2.5	2.6	2.9	3.0	3.4
Mental Health	-	0.6	0.7	0.7	0.9	1.0	1.1	1.3
Child Welfare	Note 1	Note 1	Note 1	4.9	4.9	5.8	6.3	7.2
Youth Corrections	Note 1	Note 1	Note 1	0.5	0.5	0.6	0.8	0.6
Other	0.6	0.3	0.1	0.9	0.2	0.7	0.4	0.2
Total Expenditures	**3.4**	**13.3**	**15.7**	**31.6**	**33.1**	**38.5**	**42.2**	**45.4**

Note 1: Programs delivered by the Department of Human Resources and Employment.
Note 2: Figures are for the six months ended 31 March 1996 except for the seniors program which are for the three months ended 31 March 1996.
Source: Audited financial statements and Board records.

2.19 Eastern Health and Community Services Board

The Board's expenditures have increased by 241% since its first full year of operations in 1997. The major reason for this increase was the transfer of various programs under the family and rehabilitative services, community corrections, and child, youth and family services from the Department of Human Resources and Employment during the 1998-99 fiscal year.

Scope and Objectives

We completed our review of the home support programs for seniors, the physically disabled and the developmentally delayed in April 2003. Our review covered the period 1 April 2001 to 31 December 2002. The objectives of our review were to:

- assess the Board's financial position; and
- determine whether the home support expenditures were adequately monitored, controlled and whether they complied with policies and procedures.

Conclusions

Financial Operations

Since the Board commenced operations in 1996 its financial position has deteriorated to the point where it had an accumulated deficit of $8.0 million at 31 March 2003. The Board has had operating deficits each year ranging in amounts from $15,650 in 2002-03 to $3.4 million in 2000-01.

The Board's financial operations are monitored throughout the year through monthly variance reports of actual and budgeted expenditures; however, there are issues relating to the Board's budget as follows:

- The Board's budget is not normally approved by the Department of Health and Community Services until well into the fiscal year; therefore, the flexibility to take action to stay within the budget is reduced. For example, the Department did not notify the Board of the approved budget for the 2002-03 fiscal year until September 2002, i.e. six months into the 2002-03 fiscal year, and for the 2001-02 fiscal year until July 2001, i.e. four months into the fiscal year.
- Each year the Board submits a budget based on the expected costs to provide health and community services in its region. This budget normally results in a deficit since Provincial funding is insufficient to cover projected costs. The Board, however, operates with the premise that additional funding or program

direction will be provided by the Province. Although in most cases this funding is eventually provided, usually in March, this results in a budget system where deficits will occur if additional funding is not provided and steps are not taken to reduce costs to the available funding level.

Home Support Programs

A major contributor to the Board's deficit has been the increase in direct client costs for the home support for seniors program and the home support for adult developmentally delayed and physically disabled programs. Costs for these programs were $15.6 million or 34.4% of total Board expenses in 2002-03. Included in the $15.6 million total program costs are $13.9 million charged directly to these programs and $1.7 million of other direct home support costs for such services as board and lodging, heat and light, personal care allowances, community access and other special needs costs included as part of the family and rehabilitative services.

Although the Board's management information systems do not provide information on what portion of expenses charged to the family and rehabilitative services relates to home support, after considerable work we determined that for 2002-03, these expenses totalled approximately $1.7 million. The Board's ability to manage home support program costs is made more difficult as a result of the limitations of its management information systems to provide all of the financial information necessary to monitor and control program costs.

The $13.9 million of direct home support costs in 2002-03 represent an increase of 56% over direct home support costs of $8.9 million in 1998-99. Our review of these programs identified the following:

- Home support program expenditures are not adequately monitored and controlled. Expenditures are made using four different payment systems and monitored through a manual system that is difficult to maintain, does not include all costs, is susceptible to errors and does not provide the total annual costs on a client basis.

- The required annual client assessments relating to the type of care and level of support for clients of the programs were not always reviewed. As a result, there are instances where the level of service was reduced without explanation.

- The required financial assessments to determine the clients' contribution were not always accurate or prepared on a timely basis. As a result, the Board cannot be certain that all clients are making the proper financial contribution towards the service being provided.

- The largest expenditure under these programs was the salaries of home support workers; however, there was not always adequate support such as time sheets to ensure the client was receiving the level of care being assessed and paid for. Further, reviews of client employee records are not always carried out on a timely basis, the procedures carried out are not always consistent and the procedures were not always documented in the client case files. As a result, there are instances where payments are being made by the Board without adequate support to demonstrate that the client actually received the services or goods being billed and also whether the client was entitled to receive the services or goods.

Findings and Recommendations

Financial Operations

Since the Board commenced operations in 1996 its financial position has deteriorated to the point where it had an accumulated deficit of $8.0 million at 31 March 2003. The Board's deteriorating financial position can be attributed to its operating deficits since its inception in 1996. These deficits ranged from $3.4 million in 2000-01 to $15,650 in 2002-03. Figure 3 provides a summary of the Board's accumulated deficit since its establishment.

Figure 3

Eastern Health and Community Services Board
Accumulated Deficit
For the Years Ended 31 March
($ Millions)

	1996 Note 1	1997	1998	1999	2000	2001	2002	2003
Accumulated deficit, beginning		(0.6)	(0.7)	(0.8)	(2.6)	(3.6)	(7.0)	(8.0)
Operating deficit	(0.6)	(0.1)	(0.1)	(1.8)	(1.0)	(3.4)	(1.0)	-
Accumulated deficit, ending	(0.6)	(0.7)	(0.8)	(2.6)	(3.6)	(7.0)	(8.0)	(8.0)

Note 1: Figures are for the six months ended 31March1996 except for the seniors program which are for the three months ended 31 March 1996.

2.19 Eastern Health and Community Services Board

A review of the operating results identified the following:

- The Board has reported deficits for every year since its inception. The more significant deficits were incurred from 1999, when the various programs under family and rehabilitative services, community corrections, and child, youth and family services were transferred from the Department of Human Resources and Employment (DHRE), to 2002.

- The Board's budget is not being approved on a timely basis. The 2002-03 proposed budget was submitted to the Department of Health and Community Services in October 2001and a revised budget based on Provincial funding was forwarded to the Department for approval in June 2002. It was not until September 2002, six months into the fiscal year, that the Department notified the Board of their approved budget for the 2002-03 fiscal year.

  The 2001-02 proposed operating budget was submitted to the Department of Health and Community Services in October 2000 and a revised budget based on Provincial funding level was forwarded to the Department in May 2001. It was not until July 2001, four months into the fiscal year, that the Department notified the Board of their approved budget for the 2001-02 fiscal year.

- Each year the Board submits a budget based upon the expected costs to provide health and community services in its region. This budget normally shows a deficit since Provincial funding is insufficient to cover projected costs. The Board continues to operate with the premise that additional funding or program direction will be provided by the Province in order for the Board to provide the required services. In most instances this funding is eventually provided, usually in March. This results in a flawed budget system where deficits will be incurred when additional funding is not provided and steps are not taken to reduce costs to the available funding level.

- The budget process does not take into consideration the changing demand for home support or demographics in the Board's region. The Province funds the Board based upon historical home support funding with increases for known program changes such as wage increases or increases in the maximum monthly allowance.

- For the fiscal years 2000-01 and 2001-02, the Board significantly exceeded its budgeted expenditures in the main program areas of home support for seniors, developmentally delayed, and physically disabled. As Figure 4 shows, the Board exceeded its budgeted home support expenditures for these programs by $1.3 million in fiscal year 2000-01 and by $1.5 million in fiscal year 2001-02.

Figure 4

Eastern Health and Community Services Board
Direct Program Costs
For the Years Ended 31 March
($ Millions)

	2001		2002		2003	
Home Support Programs	**Actual**	**Budget**	**Actual**	**Budget**	**Actual**	**Budget**
Seniors	$ 4.8	$ 4.2	$ 5.8	$ 5.4	$ 5.6	$ 6.3
Physically Disabled	1.3	1.2	1.7	1.4	2.0	1.6
Developmentally Delayed	4.5	3.9	5.5	4.7	6.3	5.8
Total Basic Home Support	**$ 10.6**	**$ 9.3**	**$ 13.0**	**$ 11.5**	**$ 13.9**	**$ 13.7**

Source: Audited Financial Statements, Eastern Health and Community Services Board and Board Records

Home Support Programs

The Board's home support programs are comprised of home support for seniors, home support for developmentally delayed adults and home support for physically disabled adults. For the year ended 31 March 2003 direct client costs for the home support program were approximately $15.6 million or 34.4% of total Board expenses.

Of the $15.6 million in direct home support costs, $13.9 million was charged directly to the home support programs while the remaining $1.7 million represents other direct home support costs such as board and lodging, heat and light, personal care allowances, community access and other special needs costs included as part of the family and rehabilitative services. Although the Board's management information systems do not provide information on what portion of expenses charged to the family and rehabilitative services relates to home support, after considerable work we determined that for 2002-03, these expenses totalled approximately

$1.7 million. The Board's ability to manage home support program costs is made more difficult as a result of the limitations of its financial management systems to provide all of the financial information necessary to monitor and control program costs.

Figure 5 provides a summary of the average number of clients being supported in each of the home support programs and the average monthly cost of support.

Figure 5

Eastern Health and Community Services Board
Average Monthly Direct Program Costs
Home Support Programs

	2001	2002	2003
Seniors			
Average Number of Clients per Month	287	328	312
Average Monthly Cost per Client	$1,403	$1,462	$1,490
Physically Disabled			
Average Number of Clients per Month	93	110	103
Average Monthly Cost per Client	$1,208	$1,315	$1,638
Developmentally Delayed			
Average Number of Clients per Month	294	329	336
Average Monthly Cost per Client	$1,265	$1,401	$1,560

Source: Audited Financial Statements and Board statistical records

As Figure 5 shows, the average monthly cost per client in each of the three programs has increased in each of the last three years. Figure 6 outlines information which shows that home support program costs, not including the amounts charged to family and rehabilitative services, have increased 78%, from $7.8 million in 1997-98 to $13.9 million in 2002-03.

Figure 6

Eastern Health and Community Services Board
Home Support Program
Direct Client Costs
1998 to 2003
($ Millions)

Year	Seniors	Developmentally Delayed	Physically Disabled	Total
1997-98	3.9	3.2	0.7	7.8
1998-99	4.1	3.7	1.1	8.9
1999-00	4.3	3.8	1.2	9.3
2000-01	4.8	4.5	1.3	10.6
2001-02	5.8	5.5	1.7	13.0
2002-03	5.6	6.3	2.0	13.9

Note: The home support programs for developmentally delayed and physically disabled adults were administered by the Department of Human Resources and Employment prior to 1998-99.
Source: Board and Department of Human Resources and Employment information systems.

The home support process begins when a person is referred to the Board for community support services. Upon referral, a social worker or a community health nurse prepares a needs assessment along with a recommendation as to the level of service to be provided. In the case of developmentally delayed adults, these assessments and service recommendations are forwarded directly to a Director of Community Support Programs, while for seniors and physically disabled adults, these assessments and service recommendations are forwarded to an Assessment Placement Consultant for evaluation before it is forwarded to a Director of Community Support Programs.

If an individual is recommended for home support, a financial assessment is undertaken to determine the financial contribution to be made by the individual and the resulting net cost to the Board. Once an individual is approved for assistance, a file is established, services commence, and the Board then has to monitor expenses and perform annual re-assessments.

2.19 Eastern Health and Community Services Board

We reviewed the systems and processes in place at the Board relating to referral and needs assessments, financial assessments, documentation and expenditure support and controlling and monitoring expenditures. We selected a sample of 6 files under the home support program for seniors and 4 files under the home support program for physically disabled and 10 files under the home support program for developmentally delayed adults. Our findings are as follows:

1. Referral and Needs Assessments

The referral and needs assessment represents the initial contact between Board staff and a client. Once a client is referred to the Board for services, their community support care needs are assessed through a single entry process. A needs assessment is completed which documents a client's personal information and assesses the client's mental, physical and behavioural situation. Based upon this assessment, a service plan is completed which recommends the type of care and the level of support required.

Our review identified that although there were current referral and needs assessments on file, we found that services provided were not always consistent with the documentation on file. For example:

- In 3 files, services were reduced without explanation - 1 file indicated that weekend respite was removed for a year, 1 file indicated that payments for 5 of 6 statutory holidays were not made, and 1 file indicated that payments were not made for any statutory holiday since June 2001.

- In 6 files, changes in the level of service were not approved in accordance with Board policy - 2 files indicated that approval was provided by the consultant when it should have been approved by a director, 1 file indicated that approval of respite hours was provided after the service was provided, and 3 files did not contain evidence of approval for emergency hours provided.

- In 1 file, home care was increased from 35 hours to 84 hours per week without a full needs assessment being completed. Board policy requires the completion of a full assessment except in cases where changes in services provided are considered minor, in which case only a one page update is required. The change from 35 hours to 84 hours per week would appear to have been significant enough to require the completion of a full needs assessment.

2. Financial Assessments

Financial assessments are an important part of the home support programs. Annual assessments are required to be performed to determine the contribution required from the client based on their financial ability and to determine the net cost to the Board. These annual assessments are to be completed within 15 months of the last review. Our review of this process identified that the Board cannot be certain that all clients are making the proper financial contribution towards the service being provided. For example:

- The financial assessments for the seniors and physically disabled programs are performed by financial assessment officers and financial assessments for developmentally delayed clients are performed by the case worker responsible for the file. At the time of our review, social workers identified the need for additional training in the area of their financial responsibilities as their backgrounds were not financial.

- In 5 files, financial reassessments were not performed when required under Board policy. Specifically:

    - In 3 files, there were no financial reassessments completed for 2001.

    - In 1 file, a financial reassessment had not been completed since 2001.

    - In 1 file, the financial reassessment was prepared 8 months after the anniversary date.

    This finding is supported by a Board report which indicated 45 or 10% of the seniors and physically disabled clients did not have a financial reassessment completed within the required 15 month time frame.

- In 5 files, there was no verification of income to support the financial assessment completed.

- In 2 files, new debt was issued that reduced the clients' contribution by approximately $200 per month and $315 per month. Board policy at the time these financial assessments were completed, required that no new debts or increases in existing debt be used to reduce client contribution towards home support.

- In 1 file, there was a duplicate payment of $106.

3. Documentation and Expenditure Support

Appropriate and sufficient documentation is necessary to support the decision making process and to support expenditures under the programs. Our review identified that there are instances where payments are being made by the Board without adequate support to demonstrate that the client actually received the services or goods being billed and also whether the client was entitled to receive the services or goods. For example:

- In 5 files where the Board requires time sheets, none were provided to support the number of hours provided by the home support workers.

  The Board does not require time sheets to be submitted for payments made through the Provincial pay system or those paid through invoices from an agency providing the service. However, without time sheets the Board cannot verify actual payroll costs submitted, determine who is providing the home support care, or confirm that the approved hours of support are being provided to the client.

- In 4 files, we did not find sufficient documentation to support the required review by case workers of client accounting records and time sheets for payments made under the Provincial pay system.

- In 1 file, we found that an agency had been underpaid by approximately $8,600 over a fifteen month period without being detected by Board staff. The underpayment results from the agency not being paid for additional hours approved and provided.

- In 1 file, home support payments continued to be paid for three months after they should have been discontinued. The amount of the overpayment was $10,500. This overpayment was subsequently recovered by the Board.

- In 3 files, the required Canada Customs and Revenue Agency employee remittance statements were not on file for each month.

- In 1 file, a payment was made for bereavement leave; however, there was no documentation of who took the leave and the relationship of the deceased to the worker.

4. Controlling and Monitoring of Expenditures

Monitoring of individual client costs is important in identifying expenditure trends, budgeting client costs for future financial planning, identifying client costs in excess of approved costs and identifying cases requiring more efficient alternative care arrangements.

Our review indicated that the Board is not doing an adequate job in monitoring and controlling client costs as evidenced by the following issues:

- The Board uses four systems to make payments related to home support. The use of more than one system to make payments for the same client makes it difficult to ensure that clients do not get paid more than the amount approved. Further, the multiple payment systems make it significantly more difficult to accumulate data by individual client that is so important in identifying trends in client costs, budgeting client cost for future financial planning, identifying client costs in excess of approved costs and identifying cases requiring more efficient alternative care arrangements. As a result, the Board does not have an integrated computerized information system necessary to provide the information required to adequately monitor home support costs on a client by client basis.

  While the Board does have a manual process for payment monitoring; it requires considerable staff resources to maintain the client listings on a current basis and to reconcile payments to the financial records. Our review of these manual listings indicated they do not track all costs related to clients being served and also contained several errors.

5. Home Support Waiting Lists

Since the establishment of a Provincial policy in December 2001, the Board has been adhering to strict guidelines regarding the approval of new home support cases. The Province established consistent criteria among all community health boards to ensure that only urgent/emergency clients at home or medically discharged patients requiring home support would receive home support. As such, any individuals meeting these criteria would not be waitlisted, or if they were already waitlisted they would be approved for home support. Any individuals not meeting the criteria were waitlisted until further funding became available or the client's needs changed. According to Board officials the waitlist is submitted to the Assistant Chief Executive Officer for Programs on a monthly basis and are subject to review by senior management. Our review identified the following:

- As of March 2003, there were 42 (March 2002-48) seniors waiting for new services, and 53(March 2002-66) waiting for enhanced services. The cost of providing new and enhanced services would be $49,221 per month, or $590,652 annually.

- As of March 2003, there were 13 (March 2002-12) developmentally delayed adults waiting for new services, and 39 (March 2002-19) waiting for enhanced services. The cost of providing new and enhanced services would be $20,265 per month, or $243,180 annually.

- As of March 2003, there were 19 (March 2002-15) physically disabled adults waiting for new services, and 7 (March 2002-3) waiting for enhanced services. The cost of providing new and enhanced services would be $11,853 per month, or $142,236 annually.

Recommendations

The Board should

- *consult with the Department of Health and Community Services to improve the budget process;*

- *consider changes to its financial management systems so that all home support program costs are available for monitoring and control purposes; and*

- *ensure policies and procedures for all areas of operation are monitored for compliance.*

Board's Response

Financial Operations

The Board acknowledges and shares the concerns of the Auditor General regarding its financial performance and position. The continuance of annual deficits has had an impact on the board's ability to plan and focus on other areas of its mandate. The Board's financial position is not unlike the other three Health and Community Services Boards in the province.

The Board has advocated for additional funding to meet the increasing demand for client needs over the last four years. The Department has responded with additional and stabilization funding during the last four years.

With respect to the budget approval process, the Trustees of the Board have taken their responsibilities very seriously. They have notified the Minister annually of their inability to approve the Board budget because of the inherent deficit. The Board prepares a comprehensive budget by analyzing its caseloads and determining demand for service and then projecting costs for the upcoming fiscal year. The total projected expenditure is compared to the expected funding to determine the Board projected financial position. The Board's mandate involves the delivery of provincial programs in the Eastern region. It is because of this provincial perspective that the Board is limited in making program changes. The Board feels that program direction must come from the Department if there is to be change. Therefore, when facing a deficit, the choices are limited - to advocate for more funding or reduce expenditure by limiting program availability. If the programs are of a provincial standard, then the Board cannot make changes as it would create a different standard compared to the rest of province.

Further to the Board's financial position, it is noted that the Auditor General in Figure 3 is including $3.3 million for severance and vacation payable into the Board's overall deficit. The Board has not been funded by the Department of Health and Community Services for this liability. From the Board's perspective, the accumulated deficit on operations is $4.7 million and not $8 million as reported. It is also noted that a major portion of this deficit is related to the Home Support Programs.

Home Support Program

The Board acknowledges the conclusions of the Auditor General with respect to the Home Support program.

The Board has worked very hard to develop information systems to support the payments process to clients. These different processes have arisen as the Board deals with its changing environment such as the inability to access HRE pay centers. The Board has moved forward with the integration of all staff (nurses, social workers and other health professionals) in many of its locations. This has meant that the Board has moved staff out of HRE accommodations and, therefore, access to these pay systems.

2.19 Eastern Health and Community Services Board

The Board has developed its own database for the payment of seniors receiving home supports. It has allowed the Board to introduce direct depositing of payments to seniors which has been more efficient and timely, both for the Board and the clients. It has permitted the development of a KIV system of the seniors program which has improved monitoring. Home support expenditures are being monitored within the resource limitations of the Board. The Board has worked very hard to realign the internal processes and to develop information systems to support the payments process to clients.

The number of cases under management by the Board's social workers continues to increase as the demand for services increase. A review by senior management of the items noted shows that many of these cases have extraordinary circumstances and that many of the issues were identified by the caseworker and the immediate supervisor. The lack of documentation and supporting evidence in the client files continues to be a struggle for staff. The Board is continually dealing with turnover in social workers which add to these problems. The Board lacks the appropriate number of the client financial assessment staff to perform financial work. Most of the client financial responsibility rests with social workers who do not have formal training in this area and have other urgent clinical responsibilities. Thus, financial assessments and reassessments are not always completed on a timely basis. The Board also acknowledges that the increasing workload for all social workers within this program area is a provincial issue. Analysis by the Provincial Social Work Workload Committee suggests implications for scope of practice and resource allocation to meet demand.

The Board had an internal review of its process with respect to home support completed in 2001 by its external auditor. This report led to significant improvements in documentation standards and revision in policies. However, the increased workload and lack of Client Financial Assessment staff as noted above prevents this process from being complete.

The Board has reorganized the delivery of services in the home support program by bringing the clients from different age groups together. It has initiated a policy review and a supporting management structure to assist in the delivery of home supports. This has allowed the Board to rework its own internal processes for more efficiency.

2.19 Eastern Health and Community Services Board

The Board is a key partner with the Department of Health and Community Services in the development of the new client pay system. This system will enable the Board to pay all clients from one pay system and gather information on clients in one system. This will increase the ability of the Board to monitor, assess, document and have control over the payments to clients.

The Board continues to support the implementation of the provincial electronic health record with the Client Referral Management System. This system documents clinical issues from Home Support programs. The development and implementation of the client pay system will allow both financial and client documentation to be maintained electronically within one system.

Overall, the Board is continuing to improve its processes so that documentation, monitoring and controlling of program expenditures, and the effectiveness of the Home Support Program can be achieved.

2.19 Eastern Health and Community Services Board

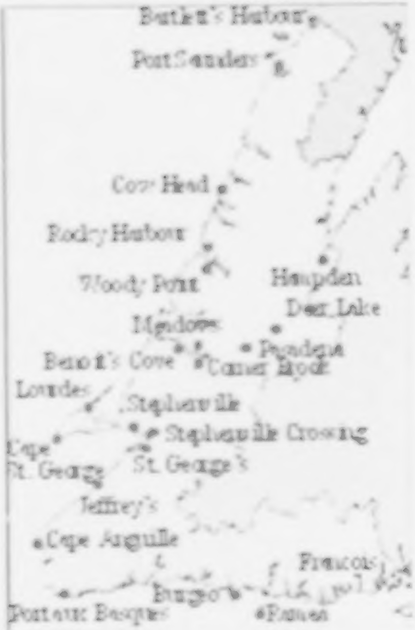
2.20 Western Regional Health and Community Services Board

Introduction

The Western Regional Health and Community Services Board (the Board) was established 1 January 1996 and operates under the authority of the *Health and Community Services Act*. The Board is responsible for the delivery of health services, other than hospital services, in the areas of health promotion, protection, research, public health, continuing care, mental health, addiction services, rehabilitative services, child youth and family services, youth correctional services and family and rehabilitative services. The Board offers these services from over 30 offices, employing approximately 350 people. Figure 1 provides an overview of the region covered by the Board.

Figure 1

Western Regional Health and Community Services Board Regional Map


Bartlett's Harbour
Port Saunders
Cow Head
Rocky Harbour
Woody Point
Hampden
Deer Lake
Meadows
Pasadena
Benoit's Cove
Corner Brook
Lourdes
Stephenville
Stephenville Crossing
Cape St. George
St. George's
Jeffrey's
Cape Anguille
Francois
Burgeo
Port aux Basques
Ramea

Source: Western Regional Health and Community Services Board website

For the 2002-03 fiscal year, the Department of Health and Community Services provided the Board with operating grants of $36.2 million and specific program funds of $1.5 million which were used for administration and programs. Expenditures relating to the Board's operations since it commenced operations in 1996 are outlined in Figure 2.

2.20 Western Regional Health and Community Services Board

Figure 2

Western Regional Health and Community Services Board
Expenditures
For the Years Ended 31 March
($ Millions)

	1996 (3 months)	1997	1998	1999	2000	2001	2002	2003
Expenditures								
Administrative	0.3	1.9	2.0	2.3	2.8	2.9	3.1	3.1
Diabetic Education	-	0.1	0.1	0.1	0.2	0.3	0.3	0.3
Diagnostic & Therapeutic	0.4	2.4	2.7	2.7	2.7	3.3	1.1	1.5
Community & Social Services	0.8	-	-	-	-	-	-	-
Home Support-Seniors	N/A	N/A	1.8	1.8	2.0	2.6	3.7	3.6
Home Support-Physically	Note 1	Note 1	Note 1	Note 1	1.0	1.2	1.5	1.6
Home Support-Mentally Challenged	Note 1	Note 1	Note 1	Note 1	2.6	2.9	3.2	3.7
Continuing Care/Public Health	N/A	4.2	3.6	4.2	2.9	3.0	3.2	3.2
Family and Rehabilitative Services	Note 1	Note 1	Note 1	Note 1	5.9	5.6	5.1	5.1
Addiction Services	N/A	0.7	0.9	1.0	0.9	0.9	1.1	1.2
Health Promotion and Protection	N/A	0.4	0.5	0.6	2.8	3.8	4.0	4.5
Mental Health	N/A	0.4	0.6	0.7	1.0	1.2	1.4	1.5
Child, Youth and Family Services	Note 1	Note 1	Note 1	Note 1	4.2	5.4	6.1	7.0
Community Corrections	Note 1	Note 1	Note 1	Note 1	1.0	1.3	1.3	1.4
Other	0.1	0.3	0.3	0.2	0.7	0.3	0.5	0.4
Total Expenditures	**1.6**	**10.4**	**12.5**	**13.6**	**30.7**	**34.7**	**35.6**	**38.1**

Note 1:Programs provided by the Department of Human Resources and Employment.
Source: Audited financial statements and Board reports.

The Board's expenditures have increased by 266% since its first full year of operations in 1997. The major reason for this increase was the transfer of various programs under family and rehabilitative services, community corrections, and child, youth and family services from the Department of Human Resources and Employment during the 1999-00 fiscal year.

2.20 Western Regional Health and Community Services Board

Scope and Objectives

We completed our review of the Board in February 2003. Our review covered the period 1 April 2001 to 31 December 2002. The objectives of our review were to:

- assess the Board's financial position; and
- determine whether the home support expenditures were adequately monitored, controlled and complied with policies and procedures.

Conclusions

Financial Operations

Since the Board commenced operations in 1996 its financial position has deteriorated to the point where it had an accumulated deficit of $4.0 million at 31 March 2003. The Board has had operating deficits in each of the last five years ranging in amounts from $0.3 million in 2003 to $1.1 million in 2002 and 2001.

The Board's financial operations are monitored throughout the year through monthly variance reports of actual and budgeted expenditures; however, there are issues relating to the Board's budget as follows:

- The Board's budget is not being approved by the Department of Health and Community Services until well into the fiscal year; therefore, the flexibility to take action to stay within the budget is reduced. For example, the Department did not notify the Board of the approved budget for the 2002-03 fiscal year until August 2002 i.e. five months into the 2002-03 fiscal year and for the 2001-02 fiscal year the Board was not notified of its approved budget until July 2001 i.e. four months into the 2001-02 fiscal year.
- Each year the Board submits a budget based on the expected costs to provide community health care services in its region. This budget normally results in a deficit since Provincial funding is insufficient to cover the projected costs. The Board, however, operates under the premise that additional funding will be provided by the Province. Although in most instances this funding is eventually provided, usually in March, this results in a budget system where deficits will occur if the additional funding is not provided and steps are not taken to reduce costs to the available funding level.

Home Support Programs

A major contributor to the increasing deficit has been the increase in direct client costs for the home support for seniors program and the home support programs for mentally and physically challenged adults. Costs for these programs were $10.9 million or 29% of total Board expenses in 2002-03. Included in the $10.9 million total program costs are $8.9 million charged directly to these programs and $2.0 million of other direct home support costs for such services as board and lodging, heat and light, personal care allowances, community access and other special needs costs included as part of the family and rehabilitative services.

Although the Board's financial management systems do not provide information on what portion of expenses charged to the family and rehabilitative services relates to home support, after considerable work we determined that for 2002-03, these expenses totalled approximately $2.0 million. The Board's ability to manage home support program costs is made more difficult as a result of the limitations of its management information systems to provide all of the financial information necessary to monitor and control program costs.

The $8.9 million of direct home support costs in 2003 represent an increase of 98% over the direct home support costs of $4.5 million in 1997-98. Our review of these programs identified the following:

- Home support program expenditures were not adequately monitored and controlled. Expenditures were made through three different payment systems and, as a result, individual client costs were not readily available.

- The required annual client assessment relating to the type of care and level of support for clients of the programs for adults is not always completed. The assessments relating to the program for seniors were not always fully completed or approved. As a result there are instances of inadequate support for the type and level of service being assessed and provided.

- One client was funded $275,000 under the programs for adults even though the client did not meet the eligibility criteria as set out in Board policy for the type of care being provided i.e co-operative apartment arrangement.

- The required annual financial assessments to determine the clients' contribution were not always completed accurately and were not always accompanied by the required documentation. As a result the Board cannot be certain that all clients are making the proper financial contribution towards the service being provided.

- We found that there was not always adequate documentation to support expenditures. For example, time sheets to support the level of care being assessed and paid for were not on file, in addition, monthly allowances for items such as community access and personal expenses were not always adequately supported. Furthermore, once the monthly allowances were approved they continued to be paid each year without a review to determine whether the allowance continued to be required. As a result, there are instances where payments are being made by the Board without adequate support to demonstrate that the client actually received the services or goods being billed and also whether the client was entitled to receive the services or goods.

- Reconciliations between allowances paid and the actual costs incurred by clients to identify over and under payments were not always completed as required. There were instances where reconciliations were inaccurate, not submitted on a timely basis, lacked the required detail and, furthermore, over and under payments identified during the process were not always settled on a timely basis.

- Policies and procedures relating to the home support programs for adults were incomplete and outdated.

Findings and Recommendations

Financial Operations

Since the Board commenced operations in 1996 its financial position has deteriorated to the point where it had an accumulated deficit of $4.0 million at 31 March 2003. The Board has incurred an annual operating deficit in each of the last five years. The amount of these deficits ranged from $0.3 million in 2003 to $1.1 million in 2002 and 2001. The Board's financial operations are monitored throughout the year through monthly variance reports of actual and budgeted expenditures. Figure 3 provides a summary of the Board's operating results since its establishment.

Figure 3

Western Regional Health and Community Services Board
Accumulated Surplus/Deficit
For the Years Ended 31 March
($ Millions)

	1996	1997	1998	1999	2000	2001	2002	2003
Accumulated surplus (deficit), beginning	-	(0.5)	(0.8)	0.6	(0.7)	(1.6)	(2.6)	(3.7)
Operating surplus (deficit)	0.1	1.9	1.3	(0.5)	(0.9)	(1.1)	(1.1)	(0.3)
Grant to Western Health Care	-	-	-	(0.9)	-	-	-	-
Severance and vacation transferred	(0.5)	-	-	-	-	-	-	-
Transfer from (to) Board Fund	(0.1)	(2.2)	0.1	0.1	-	0.1	-	-
Accumulated surplus (deficit), ending	**(0.5)**	**(0.8)**	**0.6**	**(0.7)**	**(1.6)**	**(2.6)**	**(3.7)**	**(4.0)**

Source: Audited financial statements

Our review of the Board's budget process identified the following issues:

- The Board's budget is not being approved on a timely basis. The 2002-03 proposed budget was submitted to the Department of Health and Community Services in November 2001; however, a revised budget based on the Provincial funding was not submitted until June 2002. It was not until August 2002, five months into the fiscal year, that the Department notified the Board of their approved budget for the 2002-03 fiscal year.

  The 2001-02 proposed operating budget was submitted to the Department of Health and Community Services in October 2000 and a revised budget based on the Provincial funding level was forwarded to the Department for approval in May 2001. It was not until July 2001, four months into the fiscal year, that the Department notified the Board of their approved budget for the 2001-02 fiscal year.

- Each year the Board submits a budget based on the expected costs to provide community health care services in its region. This budget normally shows a deficit since Provincial funding is insufficient to cover the projected costs. The Board continues to operate under the premise that additional funding will be provided by the Province in order for the Board to provide the required services and in most instances this funding is eventually provided, usually in March. This results in a flawed budget system where deficits will be incurred when the additional funding is not provided and steps are not taken to reduce costs to the available funding level.

- The budget process does not take into consideration the changing demand for home support or demographics in the Board's region. The Province funds the Board based upon historical home support funding with increases for known program changes such as wage increases or increases in the maximum monthly allowance.

Our review of the Board's financial operations indicated the following:

- The home support programs represent a significant expenditure for the Board and for 2003 the Board reported expenditures of $8.9 million. For the fiscal years 2000-01 and 2001-02, the Board significantly exceeded its budgeted expenditures in two main program areas; home support for seniors and home support for mentally and physically challenged adults. For the fiscal year 2001-02, the Board exceeded its budgeted home support expenditures by $1.4 million or 20% of budgeted expenditures as shown in Figure 4.

Figure 4

Western Regional Health and Community Services Board
Home Support Programs
Direct Client Costs
For the Years Ended 31 March
($ Millions)

Home Support Programs	2001		2002		2003	
	Actual	Budget	Actual	Budget	Actual	Budget
Seniors	2.6	2.2	3.7	2.8	3.6	4.0
Mentally Challenged	2.9	2.9	3.2	2.9	3.7	3.4
Physically Challenged	1.2	1.1	1.5	1.3	1.6	1.5
Total	6.7	6.2	8.4	7	8.9	8.9

Note: Costs do not include administration costs of the programs or other flat rate allowances and direct expenses associated with clients receiving home support.

Source: Board information systems.

- Actual travel costs during 2001-02 totalled $680,000, approximately 3.5% of non-salary expenses. In addition to the $680,000, the Board provides car allowances to certain employees in the performance of their duties. During the 2002 year, the Board paid car allowances of $133,000 to 136 employees. Government policy permits the payment of car allowances to employees who are required to have an automobile as a condition of their employment. Normally this condition is established by the number of kilometres an employee travels in one year; however, this was not used in determining whether a car allowance should be paid to Board staff.

  Our review identified that, although 9 of the 136 employees claimed for less than 1,000 kilometres during the year, they received a monthly car allowance of $85. Another 2 employees did not claim any mileage and still received the $85 monthly car allowance. In addition, 54 employees received the $85 per month car allowance and travelled more than 1,000 kilometres but less than 5,000 kilometres during 2002.

- The Board leases space at various locations throughout the region. During the 2001-02 fiscal year the Board paid $364,000 in rental costs. A review of seven leasing arrangements totalling $295,000, net of HST identified two lease agreements that have expired and are currently being paid on a month to month basis by the Board. In addition, two lease agreements were in the name of the Western Health Care Corporation which were subsequently taken over by the Board. No assignments to this effect were on file.

Home Support Programs

Home support is provided by the Board under three separate programs; home support for seniors, home support for mentally challenged adults and home support for physically challenged adults. For the year ended 31 March 2003 direct client costs for the home support program were approximately $10.9 million or 29% of total Board expenses.

Of the $10.9 million in direct home support client costs, $8.9 million was charged directly to the home support programs while the remaining $2.0 million represents other direct home support costs for such services as board and lodging, heat and light, personal care allowances, community access and other special needs costs included as part of the family and rehabilitative services. Although the Board's management information systems do not provide information on what portion of expenses charged to the family and rehabilitative services relates to home support, after considerable work we determined that for 2002-03, these expenses totalled approximately $2.0 million. The Board's ability to manage home support program costs is made more difficult as a result of the limitations of its financial management systems to provide all of the financial information necessary to monitor and control program costs.

Figure 5 provides a summary and stratification of the $10.9 million of home support client costs for the year ended 31 March 2003.

Figure 5

Western Regional Health and Community Services Board
Home Support Programs
Client Information
For the Year Ended 31 March 2003

Annual Cost per Client	Seniors			Adults		
	Client Costs	Number of Clients	Average	Client Costs	Number of Clients	Average
Greater than $200,000	$ -	-	$ -	$ 266,000	1	$266,000
$100,001 - $200,000	-	-	-	371,000	3	123,667
$50,001 - $100,000	-	-	-	1,165,000	17	68,529
$40,001 - $50,000	48,000	1	48,000	904,000	20	45,200
$30,001 - $40,000	763,000	24	31,792	927,000	27	34,333
$20,001 - $30,000	1,373,000	56	24,518	1,489,000	60	24,817
Sub-total	**2,184,000**	**81**	**26,963**	**5,122,000**	**128**	**40,016**
$10,001 - $20,000	940,000	65	14,462	1,582,000	109	14,514
Less than $10,000	438,000	129	3,395	642,000	121	5,306
Total	**$3,562,000**	**275**	**$12,953**	**$7,346,000**	**358**	**$ 20,520**

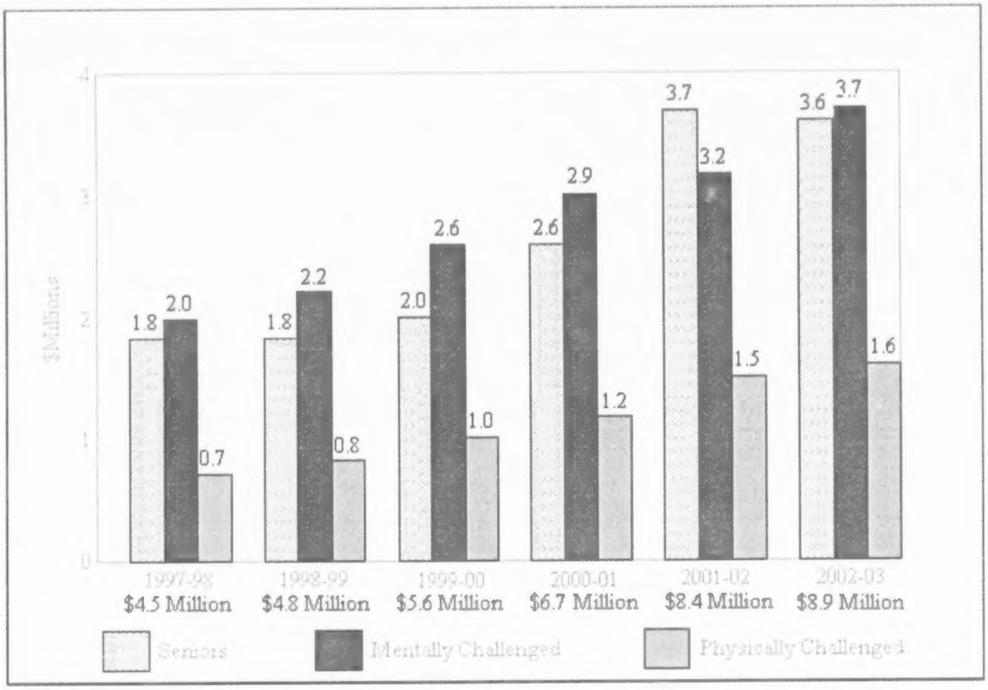
Source: Board and Department of Human Resources and Employment information systems

As the Figure shows, for the 2002-03 fiscal year, the average cost per client ranged from $3,395 to $48,000 for the home support program for seniors and from $5,306 to $266,000 for the home support programs for adults. The Figure also shows that 29% of clients (81) received 61% of funds ($2.2 million) for the home support program for seniors and 36% of clients (128) received 70% of funds ($5.1 million) for the home support programs for adults.

Home support program costs not including any amounts charged to family and rehabilitative services have increased 98%, from $4.5 million in 1997-98 to $8.9 million in 2002-03 as shown in Figure 6.

Figure 6

Western Regional Health and Community Services Board
Home Support Program
Direct Client Costs
1998 to 2003



Note: The home support program for mentally and physically challenged adults was administered by the Department of Human Resources and Employment prior to 1999-00.
Source: Board and Department of Human Resources and Employment information systems

The home support process begins when a person is referred to the Board for continuing care services. Upon referral, a needs assessment is required to be performed by a social worker or a continuing care nurse who recommends the level of service to be provided. If an individual is recommended for home support, a financial assessment is required to be undertaken to determine the financial contribution to be made by the individual and the resulting net cost to the Board.

The needs assessment and the financial assessment are presented to a review panel comprised of two regional community support coordinators and one community support manager. Once an individual is approved for assistance, a file is established, services commence, and the Board then has to monitor expenses and perform an annual re-assessment.

Given the significant costs of home support in relation to the Board's total spending and the increasing demands of these programs upon the Board's resources, the Board should ensure that processes are in place to approve applications, conduct financial assessments, document costs incurred and monitor expenses.

We reviewed the systems and processes in place at the Board and reviewed 12 files under the seniors' program and 15 files under the physically and mentally challenged adult programs. Our findings are as follows:

1. Referral and Needs Assessment

The referral and needs assessment represent the initial contact between Board staff and a client. Once a client is referred to the Board for services, their continuing care needs are required to be assessed through a single entry assessment process. A needs assessment is completed which documents a client's personal information and assesses the client's mental, physical and behavioural capacities. Based upon this assessment, a service plan is completed which recommends the type of care and the level of support required. Our review identified instances of inadequate support for the level of service being assessed and provided. For example:

- Board policy requires that an assessment be completed annually under the programs for adults; however, 6 of 15 files examined under the program did not have any assessments updated in over one year. In fact the assessment in one of these had not been updated since November 1997. One of the 15 files had no assessment on file. Furthermore, 10 of the 15 files included instances where one or more assessments were not approved by the panel.

- The approved hours of care for clients under the programs for adults did not always agree with the documented needs assessments on file. For example, one client was approved 12 hours of home support in January1999; however, this was gradually increased to 15 hours in December 2001. There was no assessment on file to support the increase from the original 12 hours of home support to 15 hours of home support.

Board policy states emergency support can only be provided up to a maximum of 8 hours per day for 14 days (112 hours) after which time the client must initiate the *Referral for Home Support* procedures. One file under the seniors program had an extended emergency response period where 738 hours of support were provided from August 2001 to December 2001.

- Funding agreements were not always on file to support the payments and the level of service. For example, there were no funding agreements between the client and the Board in 12 of the 15 files under the programs for adults. Furthermore, in 11 of the 15 files there were no contracts between the bookkeeper providing administration services and the client to outline the services to be provided and the cost of these services.

- During 2001-02, the Board, under the programs for adults, provided funding of approximately $275,000 to a residential board for a client's home support costs. Placement in such an arrangement requires that the client not require 24 hour care, the client be employed or attending an educational institution, and live with two or more other clients. Funding for such arrangements are normally provided to residential boards through direct funding from the Provincial government based upon approved client budgets. Our review of this file identified the following:

    - The client did not meet any of the eligibility criteria as set out in policy. Discussions with staff indicated that the client was approved home support under a cooperative apartment arrangement, as all other home support options had either failed in the past or had been exhausted.

    - The Board is providing funding to the residential board directly as the Provincial government would not provide funding to the residential board on behalf of the client.

    - The Board is provided with an annual client budget and monthly budget position statements; however, the details of how salary costs of $257,000 were budgeted were not provided.

    - Monthly invoices regarding the client's care costs are submitted; however, payroll costs and benefits are not detailed nor are employee time sheets submitted to support the invoices.

- Information on file indicated that, effective August 2001, the client would no longer require 2-on-1 support for 24 hours and that 2-on-1 support for 16 hours would be implemented. A review of monthly invoices since this adjustment did not identify any decline in salary costs. Board staff stated that cost savings did not transpire because of wage increases for home support workers and an unusual high amount of home support workers' sick leave relief costs.

2. Financial Assessments

Financial assessments are an important step in the application process. Annual assessments are required to be performed to determine the contribution required from the client based on their financial ability and to determine the net cost to the Board. Our review of this process identified that the Board cannot be certain that all clients are making the proper financial contribution towards the service being provided. For example:

- The financial assessments for the program for seniors is the responsibility of two designated social assistance workers; however, the financial assessments for the programs for adults are performed by social workers who are also responsible for that particular case. At the time of our review social workers under the adult programs identified the need for additional training in the area of their financial responsibilities as their backgrounds were not financial.

- One of the 12 files under the program for seniors included a September 2002 financial assessment that established a client contribution of $29 per month. However, invoices submitted by the agency providing the home support service failed to take into account this client contribution and, as a result, the Board overpaid the client by $29 per month.

- Two of the 15 files under the programs for adults did not follow proper approval procedures. In one case no approval was documented for an annual assessment and staff indicated that it was verbally approved while another file included a financial assessment that was not approved until nine months after the assessment took effect. Without proper approvals the Board cannot ensure that the level of assistance is accurately calculated and appropriate costs are assessed.

- Financial assessments were not always accurate. Nine of the 12 files under the program for seniors had incorrect or out-dated amounts included on their recent financial assessments resulting in minor over and under payments to clients; two files had inadequate support for private home care recorded as an allowable expense on the assessment; and one file had financial assessments that included debt retirement expense based on recent credit card balances although the debt was previously capped in 2000.

3. Documentation and Expenditure Support

Appropriate and sufficient documentation is necessary to support the decision making process and to support expenditures under the programs. Our review identified that there are instances where payments are being made by the Board without adequate support to demonstrate that the client actually received the services or goods being billed and also whether the client was entitled to receive the services or goods. For example:

- Files did not always have adequate documentation to support the number of hours of home support delivered to the client. Seven of 12 files under the program for seniors did not have time sheets to support the number of hours provided by home support workers and time sheets on the remaining 5 files were not signed by the home support workers. Eleven of the 15 files under the programs for adults were for clients paid through the Provincial pay system, 2 were paid through invoices from an agency providing the service and 2 were paid through time sheets from a bookkeeper providing administration services for the client. Neither of the 11 files paid through the Provincial system nor the 2 files paid through an agency included time sheets.

  Discussions with staff identified that the Board does not require time sheets to be submitted for clients paid through the Provincial pay system or those paid through invoices from an agency providing the service. Without time sheets, the Board cannot verify the actual payroll costs submitted, determine who is providing the home support care or confirm that approved hours of support have been provided to the client. For example, our review of one file under the programs for adults identified what appeared to be an excessive number of hours paid for statutory holidays for the period under review. Upon further enquiry it was determined that the Board overpaid the client approximately $375 for 48 hours of care.

- Files did not always have adequate documentation to support expenditures. For example, one file under the programs for adults had additional hours reported during a 15 month period as a result of four instances of bereavement leave replacement costs for regular home support workers. Except for notations on the quarterly reconciliations, no other support was on file to substantiate the leave taken or additional funding paid. Five files under the program for seniors had inadequate support for expenses used in the financial assessment process.

- Certain monthly allowances in 5 of the 15 files under the programs for adults were not adequately supported or verified as being used for their intended purposes. For example, there was inadequate support in one file for special needs funding of $792 per month, in another file for medication expenses of $80 per month, in a third file for bed linen costs of $25 per month, in a fourth file for repair costs of $250, and in a fifth file for sundry expenses of $50 per month and utility expenses of $80 per month.

- There was no verification to ensure that clients under the programs for adults received the care for which specific funding was provided. In one case, a client was funded $610 each month for an additional 80 hours per month for two-on-one support while the client was on community access. There was no support on file to determine if the client was provided with this service or if the 80 hours was used for the purpose intended.

  Seven of the 15 files reviewed included instances where funding was provided to cover weekend and vacation respite. Weekend and vacation respite is provided to give home support workers and live-in family time away from caring for the client. Respite is provided based on a flat rate depending upon the period of respite care approved; however, there was no evidence on file to verify that respite care was actually provided. For example, one case had approved weekend respite care at $270 per month to cover two weekends per month and prior to June 1998, a respite care certification was on file confirming that the service was provided. However, no certifications were on file since that time. Also, our review identified that other files where weekend respite was provided had no such certification on file or other documentation that funding provided was spent on weekend respite.

- In one file under the programs for adults, there was no agreement between the live-in supervisor and the client detailing the position duties, approved salary, hours of support, and the supervisor's contribution towards living costs as required by Board policy.

- Pay rates for home support workers were not always in accordance with approved Provincial guidelines. For example, three instances in two files under the programs for adults included claims for hourly rates of \$7.59, \$8.00 and \$9.01 while the Provincial allowance was either \$7.01 or \$8.76, depending on the service being provided.

4. Monitoring of Expenditures

Monitoring of individual client costs is important in identifying expenditure trends, budgeting client costs for future financial planning, identifying client costs in excess of approved costs and identifying cases requiring more efficient alternative care arrangements.

Our review indicated that the Board is not doing an adequate job in monitoring and controlling client costs as evidenced by the following issues:

- The Board does not currently have the information systems necessary to provide the information required to adequately monitor home support costs on a client by client basis. Also, the Board's use of three different payment systems is not efficient in accumulating adequate cost information. The costs for the program for seniors are tracked using a spreadsheet software program in conjunction with the Board's Meditech system. Depending upon where and when the case file originated, payments under the programs for adults are recorded and tracked through three different payment systems; the Financial Assistance Computer Terminal System (FACTS), Service Authorization Invoicing Processing System (SAIP) and the Board's Meditech system (Port-aux- Basques clients only).

- Payments made under the FACTS system are advance payments paid directly to the client through the Department of Human Resources and Employment. These payments are based upon approved assessments of the level of home support. The Board then reimburses the Province for these advance payments. This process creates additional administrative duties since the Board has to reconcile the Department's payments of approved funding to actual home support costs in each district. Our review identified one case where a file was transferred to the Board from another community health board; however, the settlement coding had not been changed and, as a result, the former board continued to reimburse the Province for the services provided to the client. During the 2001-02 fiscal year, the previous community health board reimbursed the Province $73,540 in home support costs related to services provided by this Board.

- Each quarter, bookkeepers under the programs for adults are required to forward an expenditure reconciliation to the social worker for review and approval. The quarterly expenditure reconciliation compares the amount of approved funding paid to the bookkeeper to the actual home support paid out by the bookkeeper to the home support workers. Eleven of the 15 files reviewed required these reconciliations to be prepared while 4 of the 15 files did not include advance payments and were paid through invoicing or submission of time sheets. Our review of this process identified a number of concerns:

  - Reconciliations were not always prepared in detail, prepared consistently among bookkeepers or signed off by the bookkeeper. Some reconciliations were completed with no breakdown of the funding or payroll costs for each of the three month periods, some provided total hours worked while others did not, some provided explanations for variances while others did not, and some files did not have a proper cut-off at the end of the three month period.

  - Variances between the funding level and the actual costs were not adequately addressed by the Board. For example, one case reported quarterly surpluses totalling $5,336 over a 27 month period before the Board took action to recover the amount. In another case, the client's deficit increased from $226 to $3,217 for the quarters ending September 2001 to June 2002. In September 2002, the Board issued a cheque to the bookkeeper to cover this deficit; however, for the subsequent three month period, an additional deficit of $1,135 had accumulated.

  - Quarterly reconciliations were not always accurate. Errors were identified by subsequent staff reviews and also during our review. For example, one file reported an accumulated funding deficit of $4,534 up to 30 September 2002; however, our recalculation of quarterly reconciliations up to that time identified a surplus of $738, a difference of $5,272.

   - Quarterly reconciliations were not always submitted on a regular basis. At the time of our review in February 2003, 6 of 11 files requiring quarterly reconciliations did not have the reconciliations submitted for the quarter ended 30 September 2002. Furthermore, 1 of the 6 had not submitted any quarterly reconciliations since 30 June 2001 while in 2 other instances quarterly reconciliations had not been submitted since 31 December 2001and in 3 instances quarterly reconciliations had not been submitted since 30 June 2002.

- There is no periodic review of community access funding for clients under the programs for adults to ensure there is a continuing need for such funding. Community access funding is provided to assist the client's involvement in community activities, including day trips, walking activities, bowling, swimming, library, out-of-home meals, and other miscellaneous community activities. For example, in one file, community access funding of $200 per month continued to be approved even though the client's recent annual assessment noted that due to the client's *"deteriorating health and physical abilities, activities are limited"*. The social worker agreed that community access funding should be re-assessed in this case.

- Board policy does not permit the client's family members to receive payment for home support services. One file under the program for seniors reported instances of the client's family being paid for the provision of home support services. Board staff were aware of this and recorded several instances of the non-compliance with Board policy in the client's case file log sheet; however, no remedial actions were taken even after the client was contacted and incidents still occurred.

- The Board does not have an internal review process to periodically review the level of home support provided to each client, the costs of providing this support, or to ensure services are provided in accordance with Board and Provincial policies and procedures.

5. Policies and Procedures

Clear policies and procedures are needed to ensure that Government and Board policies are applied consistently and equitably. We would expect these polices to be updated regularly and cover such areas as assessment, monitoring and reporting on the services provided.

Our review identified that, although the Policy Manual for the program for seniors is being updated regularly, the Policy Manual for the programs for adults is outdated and does not cover all aspects of the program. Board staff indicated the Policy Manual for the programs for adults lacked specific policies and procedures governing the allowing of certain expenses or subsidies, completion of assessments, calculation of home support funding, reconciliation of funding to actual payments and the use of funding agreements or bookkeeping contracts.

6. Home Support Waiting Lists

Since the establishment of a Provincial policy in December 2001, the Board has been adhering to strict guidelines regarding the approval of new home support cases. The Province established consistent criteria among all community health boards to ensure that only urgent/emergent clients at home or medically discharged patients requiring home support would receive home support. As such, any individuals meeting these criteria would not be waitlisted, or if they were already waitlisted they would be approved for home support. Any individuals not meeting the criteria were waitlisted until further funding became available or the client's needs changed. The Board established a second tier review panel to ensure all recommended home support cases met the criteria. Our review identified the following:

- The panel does not keep minutes of its deliberations and as a result we were unable to confirm whether clients approved for services subsequent to December 2001 met the newly established criteria or why files waitlisted did not meet the criteria and therefore were not approved for home support services. A review of letters sent to clients who were waitlisted identified financial constraints as the reason for home support services not being approved.

- As of January 2003, there were 36 (April 2002-30) seniors waiting for new services, and 24 (April 2002 - 8) waiting for enhanced services. The cost of providing services to the new clients would be $34,759 per month, or $417,108 annually.

- As of January 2003, there were 8 (October 2002 - 2) mentally challenged adults waiting for new services, and 12 (October 2002 - 8) waiting for enhanced services. Prior to October 2002, the Board did not maintain waiting lists for mentally challenged adults awaiting services. The cost of providing services to the new clients would be $3,756 per month, or $45,072 annually.

- As of January 2003, there were 5 (October 2002 - 3) physically challenged adults waiting for new services, and 4 (October 2002 - 2) waiting for enhanced services. Prior to October 2002, the Board did not maintain waiting lists for physically challenged adults awaiting services. The cost of providing services to the new clients would be $2,075 per month, or $24,900 annually.

Recommendations

The Board should:

- *consult with the Department of Health and Community Services to improve the budget process;*
- *consider changes to its financial management systems so that all home support program costs are available for monitoring and control purposes;*
- *establish an internal review system to ensure home support program expenditures are approved, assessed accurately, documented and monitored; and*
- *ensure policies and procedures for all areas of operation are documented, updated periodically and monitored for compliance.*

Board's Response

The Western Regional Community Health Board was established in 1996 under the Public Health Act *with responsibility for the delivery of health services, other than hospital services, in the areas of:*

1. *Health Promotion*
2. *Health Protection*
3. *Continuing Care*
4. *Mental Health*
5. *Drug Dependency*

Subsequently in 1998, Western Regional Community Health Board was repealed and replaced by the Western Regional Health and Community Services Board (The Board) under the Health and Community Services Act. *The major aspect of this change was the addition of responsibility for child, youth, and family services and services to adult individuals. These services were formerly with the Department of Human Resources and Employment. While this legislative change was effective in 1998, the* *actual transfer of funds for these added programs and services did not take effect until April 1, 1999. Thus, the significant increase in expenditures during the 1999/2000 Fiscal year. (See Figure 2)*

Due to the expanded mandate, comparison of expenditures across the years 1997 to 2003 is somewhat misleading in that you are comparing two very different organizations with very different mandates. For example, of the 266% increase in expenditures referred to in the Introduction, 127% or $13,218,000 is a direct result of the transfer of existing programs from a government department. If, however, you looked at expenditure growth within the Board (2000 to 2003) you have an increase of 24%. This increase is not unrealistic given the negotiated salary increases, home support worker rate increases, and new initiatives such as the National Child Benefit (NCB) and the Early Childhood Development (ECD) funded in partnership with the Federal Government.

An analysis of the expenditure increase from the years 1997 to 2003 reveals the following:

	$ Increase	**%**
Transfer of Programs from the Department of Human Resources and Employment	*$ 13,218,000*	*127%*
New initiatives funded by the Province (NCB & ECD)	*1,140,000*	*11%*
Approximate funding for negotiated salary increase on Provincial Contracts	*4,200,000*	*42%*
Increase in Home Support Worker Rates	*1,400,000*	*13%*
New Personal Care Home subsidies and rate increases	*780,000*	*7%*
	$ 20,738,000	*199%*

CONCLUSIONS

Financial Operations

In the Report's "Conclusions - Financial Operations," the report states that the Board's financial position has deteriorated to the point where it had an accumulated deficit of $4.0 million at 31 March 2003.

2.20 Western Regional Health and Community Services Board

While the Board does have an accounting deficit of $3,991,355 a significant portion of this deficit is due to the recognition of expenses, as per generally accepted accounting principles, for which the Board does not receive funding.

This deficit can be broken down as follows:

Net book value of Board Contribution to Capital	*$ 231,222*
Deficit from operations (Excess of approved program expenditures over funding provided)	*(931,354)*
Accrued Vacation (not funded)	*(1,077,236)*
Accrued Severance (not funded)	*(2,213,987)*
Deficit as per Financial Statement	*$3,991,355)*

In September 2003, the Board, at the request of the Department of Health and Community Services, approved the transfer of $931,354 from Board Funds to offset the Operating Fund Deficit as of March 31, 2003. As a result, the remaining deficit of $3,291,233 is due to the accounting recognition of accrued vacation and severance, expenses for which the Board does not receive any funding.

With respect to budgeting, the report states, "The Board, however, operates under the premise that additional funding will be provided by the Province." While the Board does continue to operate throughout the year in a deficit position, it is not on the premise that additional funding will be provided. Rather, it is on the basis that many of the programs and services provided are based on provincial policies (ie: Home Support) and/or are required because of a legislated mandate (ie: Child Welfare). The Board cannot unilaterally change the policies and criteria for program delivery in these areas. In fact, the Department of Health and Community Services advises the Board to continue to provide services to new clients in areas such as Home Support provided the clients meet the provincially determined criteria for service delivery. The Department of Health and Community Services has, at times, authorized the Board to incur a deficit. The Board does, however, monitor and limit expenditures in the areas it can have direct influence, such as travel, staffing levels, general office supplies, etc., and continues to operate under a "no growth" policy within these areas.

Home Support Programs

Another program area covered by the report is that of the Home Support Programs. The report makes reference to an 87% increase in direct home support cost, going from $4.5 million in 97/98 to $8.4 million in 2002. A significant portion of these home support programs are in the areas of child, youth, and family services and services to adult individuals. As stated earlier, the funding for these programs was not transferred to the Board until the 1999/2000 year.

Based on reports provided through HRE and our own financial systems with the seniors home support program, our records show the 97/98 home support cost to be $4.9 M. Also, based on historical information provided by HRE, the average growth factor - across the Family and Rehabilitative Services program appears to be approximately 8% annually.

If you take the 97/98 expenditures of $4.9 M and annualize them at 8% growth up to 2002/2003 you have $7.2 M. Then, when you factor in the estimated $1.4 M increase in expenditures resulting from Provincially approved increases in the Home Support Worker rate, you are very close to the 2002/2003 Home Support expenditures of $8.9 M.

While there has been significant increases in the financial cost of the home support program, these increases need to be looked at in the broader socio-economic context of the region, which include:

- *Average family income is amongst the lowest in the province;*
- *Illiteracy rates are the highest in the province;*
- *Second highest percentage of seniors of the population;*
- *Highest out-migration rates.*

This section also makes reference to home support program expenditures not being adequately monitored and controlled because payments are made through three different payment systems. These three systems being Meditech, FACTS and SAIP. While this statement is true, we do need to put it into the context of why there are three systems. When the Family and Rehabilitative, and Child, Youth and Family Services Programs were transferred to the Board the payments for these programs for Direct Client Services were being made through the FACTS system. The FACTS system, although now outdated, was designed as a Client Pay System. It was meant to track basic client information in addition to payment information. In addition to FACTS, these services utilized the SAIP system. This system is designed to provide authorization to third party suppliers to provide services to clients. In turn, the supplier would provide an invoice for these services or products which would then be paid through the Government's financial system. At that time, the Board was *using Meditech as it's general financial system. The point of distinction is that Meditech is a general financial system design for staff payroll, vendor payables, general ledger reporting and budgeting. At the time of transfer of these programs and services there was a Provincial decision to continue using FACTS and SAIP because of the desire to continue tracking basic client information.*

Since this time, however, the implications of using multiple systems and the age, reliability and suitability of the FACTS and SAIP systems has been recognized. To address this, the Provincial Department of Health and Community Services, in partnership with the Health and Community Services Boards, has embarked on a process to design and implement a new client pay system for all programs administered by the Boards. It is expected that this new system will be operational by the end of calendar year 2004.

Throughout this section, reference is made to several other concerns with respect to the home support programs. The Board's response to these are summarized by the following categories:

1. Referral and Needs Assessment

The Board is reviewing workload and policy to identify the appropriate balance for formal reassessment of clients.

In 2002, the Board developed guidelines to improve the assessment and approval processes to help ensure that changes in home support services were documented in the client file. The Board continues to monitor and revise these processes as concerns arise. Given however, that we deal with people in very individual situations, in exceptional circumstances time limits on many of our program policies, including emergency response can be extended.

The Board recognizes the need to revise policy relevant to cooperative living arrangement. In exceptional circumstances, and with Department approval, the Board has utilized a cooperative living arrangement as an appropriate option for a small number of clients who were more disabled than should, accordingly to policy, be accommodated in this residential option. The use of this option, in these circumstances, reflects the need for a provincial review of current long term care and supportive services. This review is now in progress. Since 2001/02, the Department has directed the Board to provide funds directly to the residential support boards for some new clients admitted to the program. The funding arrangements with the residential support boards are similar to those established and maintained by the Department, i.e., the Board provides monthly funding according to an approved annual budget. At the end of *the year we require audited statements from the residential support boards. The Board does not require the payroll costs, time sheet, etcetera.*

2. Financial Assessments

The Board reviews and revises financial assessments annually. The Board realizes that income for seniors often change quarterly and that, as a result of these changes, there may be over or under payments. The cost of adding additional staff to accomplish quarterly reviews would be much more than the Board would save in overpayments.

As was mentioned previously in 2002, the Board developed guidelines to improve the assessment and approval processes including documentation in the client file. These processes relate to needs and financial assessment and approval. We will continue to monitor and revise these processes as concerns arise.

3. Documentation and Expenditure Support

As part of the guidelines to improve assessment and approval processes, in 2003 the Board developed guidelines to identify expenditure limits for supportive services and the documentation required in the file to support the expenditure. The Board continues to work with the province to review and revise policies governing financial assessment including defining allowable expenses, requirements and assets. Current program policies do not require documentation on all expenses, i.e., the use of special allowances or community access funds.

The Board approves home support at the provincially defined hourly rate. In keeping with provincial direction, the only clients receiving funding at a different rate are those whose rates were negotiated prior to 2002.

4. Monitoring of Expenditures

As was mentioned previously in 2002, the Board developed guidelines to improve the assessment and approval processes including the documentation in the client file. These processes have also helped to enhance the monitoring of home support costs.

The Board will continue to work to address concerns related to reconciliations and look forward to the development of a new client payment system that will not rely on advance payments.

5. Policies and Procedures

In 2002, the Board started a process to review and revise policies related to community support services. We continue to work with the Department as they develop policy directive guidelines for these services.

6. Waiting Lists

As was previously mentioned, the Board has developed guidelines to improve the assessment and approval processes, including documentation in the client file. The review panel compiles monthly reports that document the clients approved, the criteria that was met to support the approval, the clients waitlisted for services and the profile of clients approved. This information is sent to the Department on a monthly basis. This information, combined with the documentation on the client file can confirm that clients, approved for service, met program criteria.

FINDINGS AND RECOMMENDATIONS

Financial Operations

In this section reference is made to the Board's travel cost and payment of car allowance. With respect to the payment of car allowances, the report says, "Normally this condition is established by the number of kilometers an employee travels in one year; however, this was not used in determining whether a car allowance should be paid to Board staff.

The Board does pay car allowance and mileage in accordance with contract requirements and government policies. That is, if a position is identified as requiring an automobile, a car allowance is paid to the incumbent. Because of the nature of services provided, a large number of Board staff, 55%, are required to travel to the clients place of residence to administer services. Often times, this could involve staff making a large number of frequent short trips, especially in areas like Corner Brook, Stephenville, and Port aux Basques.

The nature of the travel and services provided make it very difficult to determine if it is more economical to pay car allowance and mileage or to have staff use taxies and car rentals. For example, what may be a 10 kilometre claim for a Public Health Nurse or Social Worker in Corner Brook could involve visits to more than one client. If a personal vehicle was not used in this case, several taxi trips would be required. Also, we need to consider staff working in rural areas where taxies and car rentals are not readily available.

Given the nature of the work performed by this group of staff, (i.e., travel to clients homes, on call, multiple client visits on one trip, rural areas,) it is very difficult to establish a policy based on kilometers only.

The Board does, however, acknowledge that there is a small number of staff currently receiving car allowances which need to be reviewed. To address this issue, a policy will be developed with respect to the payment of car allowance to management employees and we will work within the existing unionized contracts to address the small number of positions which may not require car allowance.

In response to the specific point on two employees who were paid the monthly car allowance and did not claim any mileage:

- *One employee was on sick leave and annual leave during the period reviewed. The union contract requires that car allowance continue to be paid in these circumstances.*
- *One employee was in a temporary management position and for the employee's own reasons chose not to claim mileage even though the employee's personal vehicle was used during the period reviewed.*

RECOMMENDATIONS

The Board agrees with and supports the four recommendations contained in the report. As a Board, we have and will continue to work with the Department of Health and Community Services to improve and enhance the budgeting and monitoring processes. A significant step to this end will be the implementation of a new client payment system. As stated earlier, this is a provincial initiative with a planned implementation date on a province wide basis, for the end of 2004.

The Board acknowledges that a significant portion of its expenditures are in the home support programs. To improve the internal controls in this area, a number of initiatives are currently ongoing. Some of these include:

- *An internal review of approvals to determine if program criteria are being applied in a consistent manner.*
- *A review of invoice approval and payment processes to ensure appropriate internal controls are in place.*
- *The development of an internal audit process.*

2.20 Western Regional Health and Community Services Board

- *Ongoing discussions with the Department of Health and Community Services to evaluate the Board's interpretation of program criteria.*

- *The continued review and development of program policies and procedures.*

2.21 The Medical Care Plan Beneficiary Registration System

Introduction

The Newfoundland Medical Care Plan (MCP) was introduced in Newfoundland and Labrador on 1 April 1969. It is a plan of medical care insurance designed to cover the cost of physician services for residents of the Province. A resident is defined by the *Newfoundland Medical Care Insurance Act, 1999*, as a person lawfully entitled to be, or to remain in Canada, who makes his or her home and is ordinarily present in the Province of Newfoundland and Labrador, but does not include a tourist, transient or visitor of the Province. Prior to 1 April 2000, MCP was administered by the Newfoundland Medical Care Commission. On 1 April 2000, Government dissolved the Commission and MCP became a division of the Department of Health and Community Services.

Upon approval by the Department of an application for coverage under the Medical Care Plan, the person is issued a beneficiary card. This card contains a unique and usually lifetime identification number and provides access to coverage under the Medical Care Plan. On average over the last three years, the Department has issued 15,000 new beneficiary cards each year and as at December 2002, there were 984,089 beneficiaries recorded in the Medical Care Plan system.

Expenditures for the Medical Care Plan for the last three years ended 31 March are outlined in Figure 1.

Figure 1

Department of Health and Community Services
Newfoundland Medical Care Plan Expenditures
Years Ended 31 March
($ Millions)

	2003	2002	2001
Fee-for-service Physicians	$118.9	$118.1	$115.1
Salaried Physicians	60.9	54.2	47.7
Emergency Services	11.2	10.3	10.6
Out-of-Province	4.6	3.9	4.6
Dental	4.7	4.9	5.2
Sessional	2.9	2.4	1.5
Other	3.3	3.5	3.8
Total	$206.5	$197.3	$188.5

Source: Audited financial statements of the Province of Newfoundland and Labrador

2.21 The Medical Care Plan Beneficiary Registration System

Scope and Objectives

We completed our review of the Medical Care Plan Beneficiary Registration System at the Department of Health and Community Services in March 2003. The objective of our review was to determine whether the Department has adequate systems and controls to ensure that:

- only eligible residents become beneficiaries under the Medical Care Plan; and
- the information recorded in the Medical Care Plan Beneficiary Registration System is complete and accurate so that payments are made only on behalf of eligible beneficiaries of the Medical Care Plan.

Conclusions

The Newfoundland Medical Care Plan was introduced in Newfoundland and Labrador on 1 April 1969. For the year ended 31 March 2003, payments under this system totalled $206.5 million. It is a plan of medical care insurance designed to cover the cost of physician services for residents of the Province.

Due to weaknesses in controls over beneficiary registration, the lack of security features contained in beneficiary cards, and weaknesses over monitoring claims paid, there could be a significant cost to the Province associated with the payment of ineligible claims. Specifically:

- Controls over the Medical Care Plan registration process require improvement in that the Department currently accepts photocopies of original documents which can be easily altered or falsified. In addition, information on applications processed relating to annual newborns is not validated with provincial vital statistics registries to ensure applicants are eligible to receive coverage under the Plan. For example, in 2002-03, 5,500 applications relating to newborns were processed without validation with provincial vital statistics registries.
- The beneficiary card requires improvements in that it only contains the beneficiary name and number, and does not provide adequate safeguards to identify the user in order to ensure that only eligible beneficiaries receive medical services. The card does not have any security features unique to the user such as a picture or description and does not contain an expiry date. As well, the Province has never re-registered beneficiaries and the cards that were issued in 1969 when the Plan was introduced are still valid today. As a result, the Department cannot ensure that only eligible beneficiaries receive medical services.

2.21 The Medical Care Plan Beneficiary Registration System

- At December 2002, there were 81,350 more beneficiary numbers issued than there were residents in the Province. Although some of the difference may be accounted for by various factors including deceased card holders whose deaths have not been reported to the Department, and former residents who have left the Province, the Department does not have the information necessary to determine this. It is possible for medical services to be obtained and payments made relating to these 81,350 beneficiary cards. The Department cannot determine how much, if any, has been paid on behalf of ineligible beneficiaries.

- In 2003, $320,000 and in 2002, $318,000 was paid for out-of-province medical care services relating to terminated or invalid beneficiary numbers because the Department is required under reciprocal billing arrangements to pay for these medical services. Under reciprocal agreements with other provinces and territories, the Department pays for medical services provided to both terminated and invalid (i.e. number not in Registration System) beneficiary numbers used in other provinces and territories.

  At December 2002, there were 371,144 cards that had been designated as terminated in the Registration System and which could be used in any other province or territory of Canada. This highlights the need for the Department to institute stronger controls over its cards by the use of expiry dates, unique identifiers and requiring periodic re-registration.

  The Department is not adequately investigating why payments are made for out-of-province medical services for individuals who are not eligible for coverage under the Province's Medical Care Plan. Although monthly reports are produced which are designed to determine beneficiary eligibility relating to out-of-province payments, at the time of our review the Department had only contacted beneficiaries listed in its May 2002 report and no work has been started on the monthly reports generated since that time.

Findings and Recommendations

1. Registration

An application for coverage under the Medical Care Plan can be submitted in person at the Department's offices in St. John's and Grand Falls-Windsor, or by mail. Applications must be accompanied by proof-of-identity documents to prove eligibility for coverage under the Plan. Canadian citizens must present documents which confirm their citizenship status. Such documents could include a Social Insurance

Card, a Canadian passport, a Canadian birth certificate, an official Federal Government Identity Card, or Federal Government document containing the person's Social Insurance Number and name. Foreign applicants must present the appropriate immigration documents from *Citizenship and Immigration Canada.*

The applications are reviewed by staff of the Department of Health and Community Services for accuracy, completeness and proof-of-identity documents.

Once an application is approved, the applicant is assigned a Medical Care Plan beneficiary number and issued a card that is to be presented when obtaining eligible medical services. The information is then recorded in the Department's Medical Care Plan Beneficiary Registration System which is necessary for processing medical claim payments.

We reviewed the documentation on file at the Department to support the issuance of a Medical Care Plan beneficiary card. Our review of the registration process indicated that the Department cannot ensure that only eligible persons receive a beneficiary card. For example:

- The Department does not require original documentation to be presented in order for a person to receive a beneficiary card. The Department will accept photocopies of documents to support eligibility, thereby providing an opportunity for a person to modify or falsify information to gain eligibility.
- Information on applications processed relating to annual newborns is not validated with provincial vital statistics registries to ensure applicants are eligible to receive coverage under the Plan. For example, in 2002-03, 5,500 applications relating to newborns were processed without validation with provincial vital statistics registries. The Department will register a newborn when the request is accompanied by a parent's beneficiary card. Validation of birth information would ensure that only eligible newborns are issued a beneficiary card.

2. Medical Care Plan Beneficiary Card

Once a person is provided with a beneficiary card, they have access to qualifying medical services free of charge. As a result of the cost to the Province of providing such services, it is important that the beneficiary cards be adequately controlled to ensure that they are used by only eligible persons.

2.21 The Medical Care Plan Beneficiary Registration System

We reviewed the controls in place at the Department over the design and use of beneficiary cards. Our review of these controls indicated that there were significant weaknesses which could result in payments being made on behalf of ineligible persons. For example:

(a) Card Design

In Newfoundland and Labrador the beneficiary card only contains the beneficiary name and number and therefore does not provide adequate safeguards to identify the user in order to ensure that only eligible beneficiaries receive medical services. The card does not have any security features unique to the user such as a picture or description which could reduce the risk of ineligible use of the card. In addition, the beneficiary card does not contain an expiry date. An exception to this relates to the issuance of a temporary beneficiary card, which has an expiry date, to immigrants working in the Province, students with visas, and residents who require out-of-province coverage for a maximum of 12 months. The use of an expiry date would require the card holder to re-register on a regular basis which would assist the Department in ensuring that the individual still qualified for medical coverage. The Province has never re-registered beneficiaries and the cards that were issued in 1969 when the Plan was introduced are still valid today.

As shown in Figure 2, most other provinces and territories use unique identifiers, have an expiry date on their beneficiary cards, and re-register their beneficiaries on a regular basis.

2.21 The Medical Care Plan Beneficiary Registration System

Figure 2

Medical Card Security Features
Canadian provinces and territories
31 March 2003

Province	Expiry Date	Term Re-registration	Unique Identifiers
British Columbia	No	No	Birth date, Signature, and Information on electronic strip - Note 3
Alberta	No	No	Birthdate
Saskatchewan	Yes	3 years	Birth date and Information on electronic strip - Note 3
Manitoba	No	No	Birth date, Address, and Family members - Note 4
Ontario	Yes	5 years	Birth date, Signature, Address, Digitized photo, and Information on electronic strip - Note 3
Quebec	Yes	4 years	Birth date, Signature and Digitized photo
New Brunswick	Yes	3 years	Birth date and Signature
Nova Scotia	Yes	4 years	Birth date, Signature, and Magnetic strip - Note 5
Prince Edward Island	Yes	5 years	Birth date and Magnetic strip - Note 5
Newfoundland and Labrador	No - Note 1	None	None
Nunavut	Yes	2 years - Note 2	Birth date and Signature
Northwest Territories	Yes	2 years	Birth date, Signature, and Address
Yukon	Yes	1 year	Birth date, Signature and Address

Source: Websites for Medical Care Plans and correspondence with provincial medical care plan officials.

Note 1: Expiry dates on temporary beneficiary cards issued for immigrants or students with visas and for residents who require out-of-province coverage for a maximum of 12 months.

Note 2: Beneficiaries re-register every 2 years with term to be extended to 5 years.

Note 3: The strip allows for the information printed on the front of the card to be read electronically.

Note 4: All health care cards include the registration number and all the personal health care numbers for each individual family member who is registered under that registration number.

Note 5: No electronic information is maintained on the strip at the present time.

2.21 The Medical Care Plan Beneficiary Registration System

As a result of beneficiary cards not having unique identifiers and expiry dates, and the fact that the Department has not required re-registration, the Department cannot ensure that only eligible beneficiaries receive medical services.

(b) Number of Cards

The Medical Care Plan maintains a Beneficiary Registration System that contains information on individuals that have been issued a beneficiary card including their Medical Care Plan beneficiary number, surname, given name, gender, date of birth, and address.

The system classifies the beneficiary numbers as either active, inactive or terminated. Each classification is defined as follows:

- Active - there have been claims for medical service coverage within the last ten years;
- Inactive - there have been **no** claims for medical service coverage within the last ten years; and
- Terminated - the card has been cancelled for provincial billings; however, out-of-province billings will still be paid under reciprocal agreements.

Figure 3 indicates that, in December 2002, there were 984,089 beneficiary numbers recorded in the system.

Figure 3

Department of Health and Community Services
Newfoundland Medical Care Plan Beneficiary Numbers
December 2002

Status	Number of beneficiary numbers
Active	562,178
Inactive	50,767
Sub-total	612,945
Terminated	371,144
Total MCP Beneficiary Numbers	**984,089**

Source: Newfoundland Medical Care Plan Beneficiary Registration System

The Department makes payments to physicians based on invoices received which lists the services they performed and the related beneficiary number. These invoices are compared to information recorded in the Registration System to determine whether the beneficiary number is valid and the individual is classified as an eligible beneficiary. Invoices received for both active and inactive card numbers will be paid by the Department.

As Figure 3 shows, the total number of active and inactive cards as at December 2002 is 612,945. The population of the Province as of 30 November 2002 as reported by the Newfoundland Statistics Agency was 531,595. Therefore, there were 81,350 more cards than residents. Although some of the difference may be accounted for by various factors including deceased card holders whose deaths have not been reported to the Department and former residents who have left the Province, the Department does not have the information necessary to determine this.

Because of the weaknesses over the registration of beneficiaries, the weaknesses over the design of beneficiary cards, and not re-registering beneficiaries, it is possible for medical services to be obtained and payments made for the 81,350 beneficiary cards which are in excess of the Province's population.

(c) Inactive Card Payments

Figure 3 indicated that there were 50,767 inactive beneficiary numbers as at December 2002. A process commenced in December 2001 whereby every two weeks a report is produced by the Registration System which lists the inactive beneficiary numbers for which claims for payment have been received. Department staff attempt to contact these individuals to determine whether they were eligible beneficiaries and whether the designation of the card should be changed.

From December 2001 to 31 January 2003, 1,016 inactive beneficiaries with processed claims were contacted by the Department to determine eligibility.

The Department received responses from 636 of the 1,016 beneficiaries. Of the remaining 380 beneficiaries, 82 letters were returned as undeliverable and there was no response from 298 beneficiaries. As a result, the Department has not determined that all inactive card payments were made on behalf of eligible beneficiaries. These 380 beneficiaries maintain their inactive status in the Medical Care Plan Beneficiary Registration System.

(d) Terminated and Invalid Card Payments

Figure 3 shows that, as at December 2002, there were 371,144 cards that were designated as terminated in the Registration System. A beneficiary number is terminated if the qualifying criteria of residency and citizenship under the Medical Care Plan are no longer met. The most common reasons that a beneficiary number is terminated are the death of the beneficiary or a move by the beneficiary to another province. Other reasons for the termination of a beneficiary card number include the expiration of temporary beneficiary cards and the issuance of a new beneficiary card upon notification of a change in name.

No payment will be made for in-province medical service charges relating to terminated beneficiary numbers. However, under reciprocal agreements with other provinces and territories, the Department is required to pay for all medical services provided by physicians. Because of the lack of security features on the beneficiary cards, physicians providing medical services are not able to determine a person's eligibility. As a result, payments are made for medical services relating to all beneficiary cards including terminated and invalid (i.e. number not in Registration System) beneficiary numbers.

For the years ended 31 March 2003 and 31 March 2002, the Department paid out-of-province medical care services totalling $4.6 million and $3.9 million respectively. Of this, in 2003, $320,000 and in 2002, $318,000 was paid for terminated or invalid beneficiary numbers. As a result, the Department is paying for medical services for ineligible beneficiaries because it is required to do so under reciprocal billing arrangements. This highlights the need for the Department to institute stronger controls over its cards by the use of expiry dates, unique identifiers and requiring periodic re-registration.

The reciprocal billings received from other provinces include beneficiary numbers. Each month, the Department produces two reports relating to beneficiaries who are included in reciprocal billings.

One of the reports produced lists all beneficiary numbers which have had out-of-province services reimbursed in 8 or more of the previous 15 months. The May 2002 report contained 315 beneficiary names. The other report produced lists beneficiary numbers, designated as either terminated or invalid in the Registration System, which have had out-of-province services reimbursed during the previous month. The May 2002 report contained 48 beneficiary names. All beneficiaries identified in these two reports are required to be contacted to determine eligibility; however, as of February 2003, the Department is still attempting to contact beneficiaries listed in the May 2002 reports. Therefore, no work has started on the reports generated from June 2002 to February 2003.

As a result, the Department is not adequately investigating why payments are made for out-of-province medical services for individuals who are not eligible for coverage under the Province's Medical Care Plan.

In addition to reviewing the Department's reports, we selected 40 beneficiary numbers that were designated as terminated due to the death of the beneficiary to determine whether these numbers were terminated on a timely basis after death. Our review indicated that 26 of the 40 beneficiary numbers were not terminated in the System until twelve or more months after the date of death of the beneficiary. Two of the 26 numbers were not terminated until over 14 years after the date of death of the beneficiary.

(e) Terminations Due to Issuance of New Beneficiary Cards

In certain circumstances, such as on notification of a change in name, the Department will issue a new beneficiary card containing a beneficiary number different from the one on the original card. When the second card is issued, the Department's policy is to designate the beneficiary number on the original card as terminated.

Our review indicated that when new cards are issued to beneficiaries in these circumstances, the original beneficiary numbers are not always designated in the Registration System as having been terminated.

In January 2002, the Department produced a report which identified instances where one or more beneficiary numbers had similar identifiers such as name, address or birth date. Based on the Department's review of this report, 662 beneficiary numbers were terminated. Department officials indicated; however, that their review of the January 2002 report was still in progress and that no further reports of this type have been produced.

We identified 204 instances as at December 2002 where there was more than one beneficiary number in the Registration System having the same name and birth date information. None of these beneficiary numbers had been designated as terminated.

The presence of more than one number for these beneficiaries could result in payments being made for medical services on behalf of ineligible beneficiaries.

Recommendations

The Department should:

- *strengthen controls over the registration process by requiring applicants to provide original documents and by validating birth information on applications with provincial vital statistics registries;*
- *improve the security features of the beneficiary card to include such design features as a picture and an expiry date;*
- *require beneficiaries to re-register within a fixed time interval; and*
- *increase its efforts to follow-up on the monitoring reports it produces.*

Department's Response

Strengthen controls over the registration process by requiring applicants to provide original documents and by validating birth information on applications with provincial vital statistics registries.

While MCP recognizes the potential for photocopies of original documents to be altered or falsified, there has never been any indication that this is indeed happening. The following explains why the decision was made to accept photocopies:

- *Clients in the St. John's and Grand Falls-Windsor areas can visit our offices in person and present original documents to be photocopied by our staff. These original documents are immediately returned to the client. All other clients have to send their original documents through the mail. This would include documents such as Birth Certificates, Passports, SIN cards, Federal Government ID's, Permanent Resident cards, and*

Immigration papers. These are not documents that anyone would want to have lost in the mail as they could be costly to replace.

- *It is very convenient for clients to copy their original documents and submit the copies with their applications. If for some reason they are never received by MCP, the client can simply take another copy and submit it again.*

- *If original documents were received by MCP and for some reason did not get returned to the client, the Department would most likely have to cover the replacement cost.*

- *If clients are in the St. John's, Clarenville, Gander, Grand Falls-Windsor or Corner Brook areas, Birth Certificates are available at the Government Service Centers. Anyone outside these areas would have to apply through the mail, a process which could take 6-8 weeks or longer. This could be very stressful to a person who was being told they need this particular document to get their MCP card. Many times they are also being pressured for a valid MCP number by a physician's office in order to receive treatment.*

I would also like to point out that with the implementation of the UPI/Client Registry, regular death reports are now being received by MCP. This will provide the Department with the necessary information to terminate eligibility of residents as they become deceased.

If MCP were to validate birth information with provincial vital statistics registries, the cooperation of the Vital Statistics Division would be necessary. While we recognize the potential to register newborns with invalid information, we have had no evidence or indication that this is happening.

There are many different scenarios surrounding the birth of a child that could create confusion if MCP was to try to validate its information against Vital Statistics, such as:

- *When the birth of a newborn is recorded, the information generally shows the child's sex and date of birth and the mother's name. Quite often the mother may not have taken the father's surname but will want the child to use the father's surname or even a combination of both surnames. If we were to check with Vital Statistics in a case like this, it would be difficult, if not impossible, to match.*

- *To insist on a birth certificate for each newborn would bring its own problems as mentioned previously.*

- *Attempting to validate newborns with Vital Statistics would in all likelihood see an increase in data quality issues.*

Improve the security features of the beneficiary card to include features such as a picture and an expiry date.

In 1999 MCP performed a study related to this issue and it was determined that a one-time registration of the residents of the Province would cost between $975,000 and $1,210,000. It was estimated that the annual cost of providing three year renewals would be in the range of $436,000 to $526,000.

Due to budgetary pressures, the Department has not been able to identify a source of funds. It will have further discussions with Treasury Board officials as part of the 2004/05 budget process.

Require beneficiaries to re-register within a fixed time interval.

When compared to other jurisdictions, the volume of MCP numbers existing in the database over and above our population is quite good. For example, in British Columbia they typically average 20% extra provincial health numbers in their registration system. MCP currently has approximately 15%. Due to the ongoing efforts of the Department this number is continually decreasing.

A policy and process will be developed which will require beneficiaries to re-register within a fixed time interval.

Increase efforts to follow-up on monitoring reports produced.

We will increase our efforts to do more timely follow-up and monitoring of reports produced by the MCP Beneficiary Registration System in an effort to identify ineligible beneficiaries.

2.21 The Medical Care Plan Beneficiary Registration System

2.22 Monitoring Health and Community Services Boards

Introduction

There are four health and community services boards in the Province comprised of St. John's, Eastern, Central and Western Regions. Each of these boards has local offices throughout the Province. Health and Community Services in Northern Newfoundland and Labrador are administered as separate components of the Grenfell Regional Health Services Board and the Health Labrador Corporation, respectively.

The health and community services boards provide traditional community health services including health promotion and protection, mental health services, continuing care, and immunization services. In addition, community service programs including Child Welfare, Community and Corrective Services, and Family Rehabilitative Services, are delivered under the health and community services boards.

As a part of our audit work, we continue to monitor the financial position and annual operating results of the four community services boards.

Conclusion

The combined financial position of the four health and community service boards at 31 March 2003 shows total unfunded liabilities of $23.7 million, a 158% increase from the $9.2 million reported in 1999-00. These net unfunded liabilities will eventually have to be funded by Government.

The St. John's Regional Health and Community Services Board had total unfunded liabilities of $10.2 million and accounts for 43% of the $23.7 million total reported for 2002-03. The St. John's Regional Health and Community Services Board's unfunded liabilities have increased by 112% from $4.8 million in 1999-00 to $10.2 million in 2002-03. The change in the unfunded liabilities of the other three boards showed some improvement during the year.

Provincial funding has increased from $149.7 million in 1999-00 to $200.0 million in 2002-03 and during this period, annual operating deficits have decreased from $4.6 million in 1999-00 to $1.2 million in 2002-03. Although all boards reported an annual operating deficit during the year, the deficits were less than those reported in 2001-02.

At 31 March 2003, two of the health and community services boards were in contravention of the *Financial Administration Act* in that they had long-term debt totalling $556,265 to entities outside of the government reporting entity. The $556,265 was comprised of $459,301 in long-term debt for the St. John's Regional Health and Community Services Board and $96,964 in long-term debt for the Eastern Health and Community Services Board.

2.22 Monitoring Health and Community Services Boards

Observations

Financial Position

Our review of the health and community service boards' financial position in 2003 included an assessment of the annual operating results and the financial position of the four boards for each of the four years to 31 March 2003.

Information on the financial position of the four boards is outlined in Figure 1. This Figure indicates that the overall financial position of the four boards in 2002-03 continued to deteriorate. The total unfunded liabilities of the four boards have increased from $9.2 million in 2000 to $23.7 million in 2003. These liabilities will eventually have to be funded by Government.

Figure 1

Health and Community Services Boards
Summary of Financial Position
31 March
($ Millions)

	2003					2002	2001	2000
	St. John's	Eastern	Central	Western	Total	Total	Total	Total
(Bank Indebtedness) Cash	(3.7)	(6.0)	(2.2)	2.9	(9.0)	(9.3)	(7.5)	0.0
Accounts Payable	(5.1)	(1.4)	(1.6)	(3.0)	(11.1)	(10.1)	(6.8)	(6.1)
Less: Accounts Receivable	4.2	3.5	2.4	1.7	11.8	11.1	7.0	7.4
Net Liabilities	**(4.6)**	**(3.9)**	**(1.4)**	**1.6**	**(8.3)**	**(8.3)**	**(7.3)**	**1.3**
Long-term Debt	(0.6)	(0.1)	-	-	(0.7)	(0.7)	(0.7)	(0.7)
Severance Pay	(3.6)	(2.1)	(2.2)	(2.2)	(10.1)	(9.0)	(8.2)	(6.7)
Vacation Pay	(1.4)	(1.2)	(0.9)	(1.1)	(4.6)	(4.2)	(3.6)	(3.1)
Total Unfunded Liabilities	**(10.2)**	**(7.3)**	**(4.5)**	**(1.7)**	**(23.7)**	**(22.2)**	**(19.8)**	**(9.2)**

Source: Audited Financial Statements.

We also note the following regarding the financial position of the boards:

- Three of the four boards had bank overdrafts as at 31 March 2003 totaling $11.9 million to finance a part of their operations. The cash positions ranged from $2.9 million on deposit for Western Health and Community Services Board to an overdraft of $6.0 million for Eastern Health and Community Services Board.
- Total net liabilities of $8.3 million as at 31 March 2003 represent the amount by which the boards' current liabilities exceed the liquid (cash convertible) assets. The boards' total net liabilities remained constant at $8.3 million in 2001-02 and 2002-03.
- After adding long-term debt, severance pay and vacation pay liabilities, Figure 1 shows that the total amount of funding required to meet the total unfunded liabilities of these four boards as at 31 March 2003 totalled $23.7 million. This represents an increase from the $22.2 million reported in 2002.

The $23.7 million in total unfunded liabilities as at 31 March 2003 will be affected by the results of current operations and the level of funding by Government. If the boards have annual operating surpluses in the future, these surpluses could be used to fund their liabilities. If, on the other hand, the boards have annual operating deficits, these deficits, along with the liabilities, will eventually have to be funded by Government.

Operating Results

Figure 2 outlines the annual operating results for the four health and community services boards for the four years to 31 March 2003.

Figure 2

Health and Community Services Boards
Summary of Annual Operating ResultsYears Ended 31 March
($ Millions)

	St. John's		Eastern		Central		Western		Total			
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2001	2000
Revenue												
Provincial	74.6	69.7	45.4	41.0	42.3	38.9	37.7	34.2	200.0	183.8	165.3	149.7
Board fund grant	-	-	-	0.1	-	0.1	-	0.3	0.0	0.5	0.7	0.3
Other	0.3	0.3	-	-	0.6	0.3	0.2	-	1.1	0.6	0.6	0.7
	74.9	70.0	45.4	41.1	42.9	39.3	37.9	34.5	201.1	184.9	166.6	150.7
Expenses												
Administration	6.2	5.4	4.1	3.7	4.2	3.6	3.1	3.0	17.6	15.7	15.8	14.2
Programs	68.7	64.9	41.1	38.1	38.5	35.6	34.7	32.1	183.0	170.7	160.2	139.4
	74.9	70.3	45.2	41.8	42.7	39.2	37.8	35.1	200.6	186.4	176.0	153.6
Surplus (Deficit) before non-shareable expenses	0.0	(0.3)	0.2	(0.7)	0.2	0.1	0.1	(0.6)	0.5	(1.5)	(9.4)	(2.9)
Non-shareable expenses	0.7	0.4	0.2	0.4	0.4	0.3	0.4	0.5	1.7	1.6	2.2	1.7
Deficit after non-shareable expenses	(0.7)	(0.7)	0.0	(1.1)	(0.2)	(0.2)	(0.3)	(1.1)	(1.2)	(3.1)	(11.6)	(4.6)

Source: Audited Financial Statements.

As Figure 2 shows, Provincial funding has increased from $149.7 million in 1999-00 to $200.0 million in 2002-03. During this period, annual operating deficits have decreased from $4.6 million in 1999-00 to $1.2 million in 2002-03. Although all boards reported an annual operating deficit during the year, the deficits were less than those reported in 2001-02.

Provincial funding in 2002-03 included $3.8 million in one-time stabilization funding. Without this funding, the deficits reported by the boards would have increased by $3.8 million and would have ranged from $0.3 million to $1.8 million and annual operating deficits would have increased from the $1.2 million reported to $5.0 million.

Borrowing Without Authority

The most recent financial statements of the 4 health and community services boards which were created under the *Health and Community Services Act* disclosed that 2 of these entities had a total of $556,265 in outstanding long-term debt to entities outside of the government reporting entity. The $556,265 was comprised of $459,301 in long-term debt for the St. John's Regional Health and Community Services Board and $96,964 in long-term debt for the Eastern Health and Community Services Board. The *Health and Community Services Act*, under which these entities were created, does not provide specific authority to borrow funds. The *Financial Administration Act* prohibits the raising of money by way of loan without legislative authority. As a result, these entities contravened the *Financial Administration Act* by borrowing money without legislative authority.

Department's Response

Financial Position and Operating Results

The Department shares the concerns of the Auditor General regarding the financial position of the community health boards in this province. This issue is not unique to Newfoundland and Labrador. Many other provinces and territories have been struggling with steady increases in operating costs, while the Federal government has provided limited increases in funding for health services. The First Ministers met in February 2003 regarding additional funding for health and other social programs which will increase federal transfers to the Province over the next several years. The province is still concerned, however that the amount committed does not restore the federal share of funding to the amounts received in the early 1990's.

Despite the limited federal assistance, the Department and Boards have undertaken numerous initiatives to alleviate these financial concerns. As noted in your draft Report, the annual operating deficits of the boards for 2002/03 have decreased from the prior year. In fact, one board reported a balanced position after non-shareable items for 2002/03, and all boards reported a balanced or surplus position before non-shareable items for 2002/03. There were also a slight improvement in the financial position of some boards. Three of the four boards reported a decrease in unfunded liabilities at the end of 2002/03. This improvement in financial results and position is due to several factors, including the following:

1. *The Department provided additional funding to these boards in excess of $16 million for the fiscal year 2002/03.*

2. *The Department has been working with the boards to strengthen their accountability regarding financial results. Specific items include:*

   a. *The Department worked with the boards to develop and implement a process for monitoring fiscal results throughout the year. Boards are now required to submit detailed financial and other information on a monthly basis, which include actual to budget analysis, current year vs. prior year analysis, projected deficit to the end of the fiscal year, as well as narrative explanations for fluctuations in the variances.*

   b. *The Department is also working with the regional boards to improve the availability of relevant and comparable information needed to plan, monitor and evaluate the community health sector. As part of this objective, the Department is currently restructuring the Chart of Accounts for the Health and Community Services sector. This restructuring will make us compliant with the national reporting standards, allowing us to compare our results and operations with other provinces across the country.*

   c. *In addition to developing the data standard referred to above, the Department is also developing information systems to collect financial and case management data on specific clients of the boards. This CRMS/Pay System will provide staff, managers and executive, both in the regions and the Department, with the information needed to manage the system.*

3. *The Department continues to work with boards to review programs and services in the community sector through such initiatives as the Long Term Care Strategy review and the Home Support review. In each case, recommendations are expected to reflect an efficient means of delivering the appropriate level of services.*

Borrowing Without Authority

In 1996, the St. John's Regional Health and Community Services Board borrowed funds to renovate the facility located in Pleasantville. Approval from the Minister of Health and Community Services at that time was requested by the board and granted. The debt of the Eastern Health and Community Services Board relates to a capital lease for a rental dialysis machine acquired in the fiscal year 2001/02.

The Hospitals Act*, which governs the hospital and long-term care boards in the province, specifically provides the Minister with the authority to approve borrowing from third parties. In certain circumstances, boards are authorized to raise funds through debt to finance projects that have long-term future benefits. The* Health and Community Services Act*, which governs the smaller community boards, however is silent on this issue. The Department will be seeking the advice of the Department of Justice on this issue.*

2.22 Monitoring Health and Community Services Boards

2.23 Monitoring Hospital Boards

Introduction

From 1 November 1994 to 1 January 1996 the Government of Newfoundland and Labrador established eight regional health care institutions boards to administer health care facilities in Newfoundland and Labrador. These boards took over the facilities previously administered by many small local boards.

The financial position of the eight hospital boards has been deteriorating over the past several years. In an effort to control operating deficits, boards have implemented changes to reduce costs and Government has provided additional funding. As a part of our audit work, we continue to monitor the financial position and annual operating results of the eight hospital boards.

Conclusions

The combined financial position of the eight hospital boards at 31 March 2003 shows total unfunded liabilities of $424.4 million, a 48% increase from the $286.0 million reported in 1999-00. These net unfunded liabilities will eventually have to be funded by Government.

All eight boards reported increases in the total unfunded liabilities for 2002-03. In particular, the total unfunded liabilities for the Health Care Corporation of St. John's was $233.4 million and accounts for 55% of the $424.4 million total reported by all eight boards for 2002-03. The total unfunded liabilities of the Health Care Corporation of St. John's have increased by 36% from $171.4 million in 1999-00 to $233.4 million in 2002-03.

Provincial funding has increased from $651.6 million in 1999-00 to $857.4 million in 2002-03 and during this period, annual operating deficits have decreased from $33.6 million in 1999-00 to $18.9 million in 2002-03. Although all boards reported an annual operating deficit during the year, three boards had deficits which were less than those reported in 2001-02 (Avalon, Western, and Labrador).

Observations

Financial Position

Our review of the hospital boards' financial position in 2003 included an assessment of the annual operating results and the financial position of the eight boards for each of the four years to 31 March 2003. Information on the financial position of the eight hospital boards is outlined in Figure 1. Figure 1 indicates that the financial position of the eight hospital boards continued to deteriorate. The total unfunded liabilities of the eight boards have increased from $286.0 million in 1999-00 to $424.4 million in 2002-03. These total unfunded liabilities will eventually have to be funded by Government.

Figure 1

Hospital Boards
Summary of Financial Position
31 March
($ Millions)

	St. John's	Avalon	Peninsulas	Central East	Central West	Western	Grenfell	Labrador	Total 2003	Total 2002	Total 2001	Total 2000
Cash on Hand (Bank Indebtedness)	-	(8.0)	(8.3)	(7.8)	(0.9)	(12.2)	(1.1)	(8.7)	(47.0)	(57.1)	(44.9)	(11.4)
Accounts payable	(40.0)	(3.9)	(5.4)	(6.4)	(4.5)	(16.3)	(3.5)	(4.9)	(84.9)	(75.9)	(68.6)	(62.1)
Current LTD	(1.8)	(0.5)	(0.3)	(0.2)	(0.8)	(0.8)	-	-	(4.4)	(3.7)	(3.2)	(3.4)
Less: A/R	22.8	1.5	3.7	2.6	3.5	8.4	1.9	3.1	47.5	60.0	51.3	54.4
Net Liability	(19.0)	(10.9)	(10.3)	(11.8)	(2.7)	(20.9)	(2.7)	(10.5)	(88.8)	(76.7)	(65.4)	(22.5)
Long-term debt	(148.1)	(7.0)	(5.4)	(3.3)	(18.8)	(8.6)	-	(1.3)	(192.5)	(185.7)	(181.6)	(155.1)
Severance pay	(53.3)	(7.0)	(5.9)	(8.0)	(10.0)	(17.7)	(4.2)	(3.1)	(109.2)	(96.9)	(89.8)	(82.4)
Vacation pay	(13.0)	(2.7)	(2.6)	(3.1)	(4.2)	(4.4)	(2.2)	(1.7)	(33.9)	(32.1)	(29.3)	(26.0)
Total unfunded liabilities	(233.4)	(27.6)	(24.2)	(26.2)	(35.7)	(51.6)	(9.1)	(16.6)	(424.4)	(391.4)	(366.1)	(286.0)

Source: Audited Financial Statements

We also note the following regarding the financial position of the boards:

- As at 31 March 2003, the cash positions of the boards varied, with seven of the eight boards reporting bank overdrafts totalling $47.0 million. The cash positions ranged from $16,000 on deposit for the Health Care Corporation of St. John's to an overdraft of $12.2 million for the Western Health Care Corporation.

- The boards are reporting a combined net liability of $88.8 million as at 31 March 2003, which represents the amount by which their suppliers' credit and current portion of long term debt exceed their liquid (cash convertible) assets.

- After adding long-term debt, severance pay, and vacation pay liabilities, Figure 1 shows that the total amount of funding required to meet the total unfunded liabilities of the eight hospital boards as at 31 March 2003 totalled $424.4 million. This represents an increase of 48% over the $286.0 million reported in 1999-00.

- Of the $192.5 million in long-term debt, $148.1 million, or 77%, relates to the Health Care Corporation of St. John's.

The $424.4 million in total unfunded liabilities as at 31 March 2003 will be affected by the results of current operations and the level of funding by Government. If the boards have annual operating surpluses in the future, these surpluses could be used to fund their liabilities. If, on the other hand, the boards have annual operating deficits, these deficits, along with the liabilities, will eventually have to be funded by Government.

Operating Results

Figure 2 outlines the annual operating results for the eight hospital boards for the four years to 31 March 2003.

Figure 2

Hospital Boards
Summary of Annual Operating Results
Years Ended 31 March
($ Millions)

	St. John's	Avalon	Peninsulas	Central East	Central West	Western	Grenfell	Labrador	Total 2003	Total 2002	Total 2001	Total 2000
Revenue												
Provincial Plan	375.6	55.6	63.2	62.7	77.5	135.7	38.9	48.2	857.4	786.5	692.7	651.6
Other	49.4	4.2	4.5	5.2	8.1	15.9	3.3	4.0	94.6	86.7	83.9	74.5
	425.0	59.8	67.7	67.9	85.6	151.6	42.2	52.2	952.0	873.2	776.6	726.1
Expenses												
Administration	98.2	18.9	20.6	22.3	26.1	46.0	11.8	11.8	255.7	238.6	222.1	213.9
Programs	306.5	41.4	46.6	46.0	59.4	104.4	30.9	39.8	675.0	618.9	579.5	521.8
Interest on LTD	9.6	-	-	-	-	-	-	-	9.6	9.8	8.0	0.7
Other	3.2	-	0.4	-	0.1	1.5	-	0.7	5.9	5.8	7.2	7.9
	417.5	60.3	67.6	68.3	85.6	151.9	42.7	52.3	946.2	873.1	816.8	744.3
Surplus (Deficit) before non-shareable expenses	7.5	(0.5)	0.1	(0.4)	0.0	(0.3)	(0.5)	(0.1)	5.8	0.1	(40.2)	(18.2)
Non-shareable expenses	13.5	1.1	1.6	1.4	3.9	1.9	0.6	0.7	24.7	17.0	19.9	15.4
Deficit after non-shareable expenses	(6.0)	(1.6)	(1.5)	(1.8)	(3.9)	(2.2)	(1.1)	(0.8)	(18.9)	(16.9)	(60.1)	(33.6)

Source: Audited Financial Statements

As Figure 2 shows, Provincial funding has increased from $651.6 million in 1999-00 to $857.4 million in 2002-03. During this period, annual operating deficits have decreased from $33.6 million in 1999-00 to $18.9 million in 2002-03. Although all boards reported an annual operating deficit during the year, three boards had deficits which were less than those reported in 2001-02 (Avalon, Western, and Labrador).

2.23 Monitoring Hospital Boards

Department's Response

The Department shares the concerns of the Auditor General regarding the financial position of the health boards in this province. This issue is not unique to Newfoundland and Labrador. Many other provinces and territories have been struggling with steady increases in operating costs, while the Federal government has provided limited increases in funding for health services. The First Ministers met in February 2003 regarding additional funding for health and other social programs which will increase federal transfers to the Province over the next several years. The province is still concerned, however that the amount committed does not restore the federal share of funding to the amounts received in the early 1990's.

Despite the limited federal assistance, the Department and Boards have undertaken numerous initiatives to alleviate these financial concerns. As noted in your draft Report, the total annual operating deficits of the boards have decreased during the period from 1999/00 to 2002/03. Three of the eight boards reported a decrease in deficit after non-shareable expenses from 2001/02 to 2002/03. Three other boards reported a balanced position or surplus before non-shareable expenses for 2002/03. This improvement in financial results is due to several factors, including the following:

1. *The Department provided additional provincial plan funding to these boards in excess of $70 million for the fiscal year 2002/03.*

2. *The Department has been working with the boards to strengthen their accountability regarding financial results and issues. As an example, the Department worked with the boards to develop and implement a process for monitoring fiscal results throughout the year. Boards are now required to submit detailed financial and other information on a monthly basis, which include actual to budget analysis, current year vs. prior year analysis, projected deficit to the end of the fiscal year, as well as narrative explanations for fluctuations in the variances.*

3. *The Department continues to work with health boards in the province to review the efficiency of operations. As an example, the Department funded the Operational Review of the Health Care Corporation of St. John's. In this report, the Hay Group identified areas for potential savings and many of these suggestions have been implemented by the Board or are in the process being implemented. As a result of these efforts, the Corporation was able to report a surplus before non-shareable items for 2002/03.*

2.23 Monitoring Hospital Boards

One of the reasons for the increase in unfunded liabilities of boards is increased long-term debt. In certain circumstances, boards are authorized to raise funds through third party debt to finance projects that have long-term future benefits. As an example, the Health Care Corporation of St. John's was authorized by the Department to secure loans to build the new Janeway Hospital. The related interest cost and repayment terms were incorporated into the Corporation's long-term fiscal plans before the project was approved.

2.24 Coast of Bays Corporation

Introduction

In 1992, the Province's Strategic Economic Plan recommended the creation of economic zones which would:

- facilitate the development of economic plans by the people in each zone;
- facilitate joint initiatives by communities within the zone;
- promote the economic opportunities and strengths of each zone and region; and
- facilitate more regionalization of Government administration.

In January 1995, on the basis of recommendations from the Task Force on Community Economic Development, Cabinet approved the establishment of 19 (now 20) regional economic zones and regional economic development boards.

Initially, Government established provisional boards to determine the structure and process of establishing permanent boards. The permanent boards were established as incorporated entities with democratically elected members who are community based. The 20 regional economic zones are outlined in Figure 1.

2.24 Coast of Bays Corporation

Figure 1

Regional Economic Development Boards
31 March 2003

Economic Zone #	Regional Economic Development Board	Head Office Location
1	Inukshuk Economic Development Corporation	Makkovik
2	Hyron Regional Economic Development Corporation	Labrador City
3	Central Labrador Economic Development Board Inc.	Happy Valley - Goose Bay
4	Southeastern Aurora Development Corporation	Cartwright
5	Labrador Straits Development Corporation	Forteau
6	Nordic Economic Development Corporation	Flower's Cove
7	Red Ochre Regional Board Inc.	Parson's Pond
8	Humber Economic Development Board Inc.	Corner Brook
9	Long Range Regional Economic Development Board	Stephenville
10	Marine and Mountain Zone Corporation	Port aux Basques
11	Emerald Zone Corporation	Springdale
12	Exploits Valley Economic Development Corporation	Grand Falls - Windsor
13	Coast of Bays Corporation	St. Alban's
14	Kittiwake Economic Development Corporation	Gander
15	Discovery Regional Development Board Inc.	Clarenville
16	Schooner Regional Development Corporation	Marystown
17	Mariner Resource Opportunities Network Inc.	Carbonear
18	Avalon Gateway Regional Economic Development Inc.	Dunville
19	Capital Coast Development Alliance	St. John's
20	Irish Loop Regional Economic Development Board	Trepassey

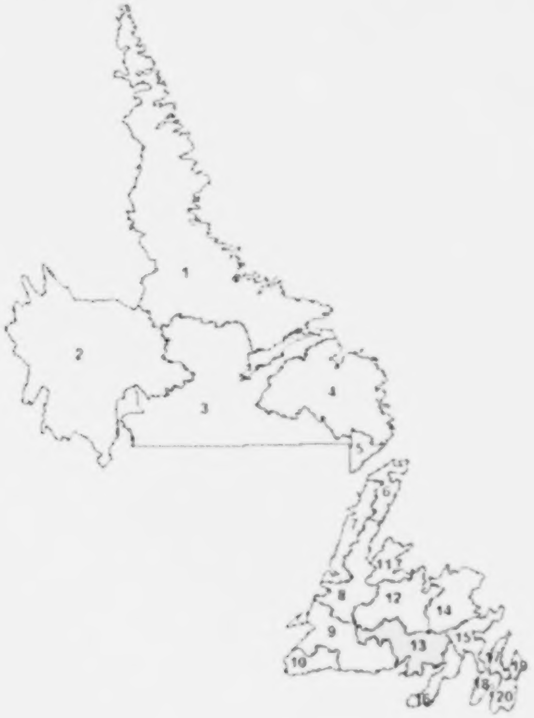
Source: Department of Industry, Trade and Rural Development

The Coast of Bays Corporation (Zone 13) covers an area on the island's south coast, including 22 communities, with a combined population of 8,538 (2001), bounded by Rencontre East, Head Bay D'Espoir and McCallum, including a significant mainly unpopulated inland area. It is sub-divided into 3 sub-zones of Fortune Bay North Shore, Connaigre Peninsula and Bay D'Espoir. Figure 2 shows the area covered by the Corporation.

2.24 Coast of Bays Corporation

Figure 2

Economic Zone 13
Coast of Bays Corporation
Location and Boundaries



The Corporation is governed by an elected board of directors representing major stakeholder groups in the region. The Board is comprised of 17 representatives as follows:

- 3 members, 1 from each sub-zone, representing municipalities;
- 3 members, 1 from each sub-zone, representing development associations, etc.;
- 3 members, 1 from each sub-zone, representing business;
- 3 members, elected at large, representing segments of the population;

- 1 member representing Conne River Band Council;
- 1 member representing education;
- 1 member representing labour; and
- 2 non-voting youth representatives.

Scope and Objectives

We completed our review of the Coast of Bays Corporation in May 2003. Our review covered the period from 1 July 2001 to 31 March 2003. The objectives of our review were to:

- review the financial position and operating results of the Corporation;
- assess whether the management practices and control systems at the Corporation are adequate to provide information to management and the Board of Directors for decision making and control of the Corporation's revenues and expenditures;
- assess the Corporation's compliance with the terms of its performance contract, related agreements, and relevant authorities;
- determine whether controls over the purchasing of goods and services are adequate and that such expenditures are made in accordance with the Corporation's policies and procedures; and
- assess whether the Corporation's capital assets are adequately controlled and accounted for.

Conclusions

In March 2003, the Public Accounts Committee made a resolution that "... *the Auditor General be asked to consider performing an audit of the Regional Economic Development Boards in the Province ...*". Further to this resolution, I performed an audit of three zonal boards during the year. As requested by the Public Accounts Committee, the results of my work are included in my Annual Report to the House of Assembly on Reviews of Departments and Crown Agencies. This report item outlines my findings on one of the three zonal boards reviewed - the Coast of Bays Corporation.

2.24 Coast of Bays Corporation

The Coast of Bays Corporation was incorporated in 1996. The Corporation, along with 19 other regional economic development boards, was established on the basis of recommendations made to Cabinet in 1995 by the Task Force on Community Economic Development. The Corporation covers an area on the island's south coast, including 22 communities, with a combined population of 8,538 (2001).

The Corporation receives its funding from the Federal and Provincial governments. Approximately $1.2 million in funding was received relating to administration expenses since the Corporation's inception in 1996, while $640,000 was received to fund initiatives in accordance with the Corporation's strategic economic plan.

Our review indicated that the Corporation is not always publicly tendering for goods and services, is not fully complying with its performance contract with the Provincial government, and requires improvements in controls in several areas. Specifically:

- **Purchasing Practices.** One item of particular concern resulting from our review was the fact that the Corporation's purchasing policies were not being followed. For example:

    - Although the Board's policy is that any expenditures in excess of $7,500 are to be publicly tendered, we found instances where such purchases were not tendered. The Corporation acquired a vehicle costing $25,742, had road construction work completed at a cost of $12,709, and had engineering work completed at a cost of $11,491 - all without a public tender call.

      We also found weaknesses with the Corporation's tendering process in instances where tenders were called. In two instances, the Corporation did not have sufficient documentation on file to support how the bids received were analysed and whether the best bid was accepted. One instance related to office space rented for $9,840 per annum while the other related to a project requiring boat rental and diving costs totalling $11,200.

    - Although the Board has a policy whereby three written quotes must be obtained from potential suppliers of goods or services that exceed $1,000 per item, we found instances totalling $22,983 where the required three written quotes were not obtained.

2.24 Coast of Bays Corporation

- **Compliance with Authorities.** The Corporation receives its funding based on a performance contract with the Federal and Provincial governments. We found that the Corporation has not fully complied with the requirements of this contract. For example, the following expenditures are not considered as direct operating expenditures and are therefore not permitted under the performance contract. The Corporation purchased a vehicle costing $25,742, increased an employee's salary by $1,000, and spent $4,557 on gifts and Christmas parties. These were not direct operating expenditures as defined in the contract and therefore would have required specific approval from the Management Committee. No such approval was obtained. Also, the Corporation did not provide the required information to the Management Committee on economic activities.

  The Corporation opened a bank account for the purchase of the vehicle in an attempt to circumvent the performance contract which did not permit such a purchase. Monthly payments of $839 are being made from this account over a three year period starting in September 2001. Deposits for this account resulted from charges to the project and operating accounts for the use of the vehicle and other assets as well as surplus funds from an aquaculture project. Charges for administrative and project travel using the vehicle were paid from their respective accounts to the vehicle account based upon travel claims prepared by staff. We note that these recoveries were not sufficient to pay for the complete cost of the vehicle. To supplement travel recoveries claimed, additional charges for unrelated project costs such as rent, heat and light, etc. were paid from the operating account and the related revenues that were generated were deposited to the vehicle account. This is inappropriate as cost recoveries which should have been deposited to the Corporation's operating account from which the payments were made, were instead deposited to the vehicle account.

The Corporation is required to repay any unexpended operational funds promptly and in any event within 30 days of written notice by the Management Committee. The Corporation has not remitted any unexpended operational funds and furthermore, the Corporation has not received written notification requesting that the amounts be repaid.

- **Planning, Monitoring and Reporting.** While the Board does receive some information on the status of how projects are proceeding when it meets, we found that there was insufficient information provided by Corporation officials at these meetings to enable the Board to monitor how resources were utilized in meeting stated objectives contained in work plans and the Strategic Economic Plan.

  There is no annual evaluation undertaken by Corporation officials of the various initiatives and projects which could be used by the Board to determine whether the initiatives or projects achieved the intended results and contributed to planned objectives.

- **Controls and Expenditures.** In addition to the public tender issues noted above, we found issues relating to the following:

  - travel claims lacked complete documentation, were not always either signed by the claimant or approved, and there were duplicate travel claim payments;
  - we identified 30 purchases totalling $1,364 made with the Corporate Visa card where documentation was inadequate to support the expenditure;
  - the control log to record usage of the vehicle is not complete in that 11,400 kilometres of the 52,000 kilometres recorded on the vehicle were not accounted for; and
  - unused cheques are sometimes pre-signed and bank reconciliations are not independently reviewed.

- **Project Administration.** There were a number of issues identified relating to project administration. In one project, the Corporation paid a consultant $88,000 for work which was later deemed unusable. In this case, another consultant was paid $11,491 to complete the required work. In another project, the Corporation spent $51,827 to construct a road and wharf, the road portion of which was later found to be unusable and will have to be moved at an additional estimated cost of $10,323.

The Corporation has commenced a process towards the construction of an Arts and Exploration Centre in the Coast of Bays Region. The Centre is estimated to cost $1.6 million and will be funded primarily by the Federal Government. The ongoing operating and maintenance costs will be the responsibility of the Board. The construction of this property and responsibility for ongoing operating and maintenance costs is not consistent with the Corporation's existing mandate.

- **Human Resources.** Contrary to the corporation's policy, three staff positions were filled without a public job competition. Furthermore, not all job competition files contained sufficient information to establish how the successful candidates were determined. In one instance, a job competition file could not be located. Attendance records are not maintained and annual performance evaluations are not performed.

- **Capital Assets.** The Corporation does not have a complete and accurate record of its capital assets.

Findings and Recommendations

Financial Position and Operating Results

Government identified two phases to the implementation of the regional economic development boards and provided funding on that basis. Phase 1 included the development of a strategic plan for each zone while Phase 2 included the implementation of the strategic plans. The operational funding for the regional economic development boards was provided through the Comprehensive Economic Development Agreement (CEDA), (formerly Strategic Regional Diversification Agreement), and administered by the Department of Industry Trade and Rural Development. Subsequent to the conclusion of the CEDA agreement in June 2002, the operational funding was provided by the Province and the Atlantic Canada Opportunities Agency (ACOA) through separate agreements with the Corporation.

Our review of the Corporation's financial position included an assessment of the annual operating results and the year end assets and liabilities. The financial position of the Corporation, represented by its assets and liabilities each year, is presented in Figure 3. The Corporation prepared its financial statements for a three month period ended 30 June 2000 in order to change its year and have its period of financial reporting coincide with the funding period of the performance contact. All other statements are for an annual period.

2.24 Coast of Bays Corporation

Figure 3

Coast of Bays Corporation
Financial Position

Category	31 March 1999	31 March 2000	30 June 2000	30 June 2001	30 June 2002
Cash	$ 73,081	$ 11,133	$ 3,098	$ (3,802)	$ 30,475
Accounts receivable-trade	4,378	752	13,617	11,526	5,870
HST receivable	7,762	10,887	12,324	8,593	18,423
Prepaid expense	-	-	-	497	-
Due from administration fund	-	-	-	-	10,000
Capital assets	44,104	44,304	44,304	47,514	87,352
Total assets	$ 129,325	$ 67,076	$ 73,343	$ 64,328	$ 152,120
Accounts payable and accrued liabilities	$ 1,768	$ 10,832	$ 27,945	$ 5,977	$ 13,751
Deferred revenue	-	-	-	-	17,849
Current portion of long-term debt - vehicle	-	-	-	-	9,918
Long-term debt - vehicle	-	-	-	-	11,683
Due to project funds	-	-	-	-	10,000
Retained Earnings (includes Investment in Capital Assets)	127,557	56,244	45,398	58,351	88,919
Total liabilities and equity	$ 129,325	$ 67,076	$ 73,343	$ 64,328	$ 152,120

Source: Corporation Financial Statements.
Note: The 2002 financial statements were audited while all others were unaudited.

As Figure 3 shows, as at 30 June 2002, the Corporation has a net surplus of $88,919 and has amounts owing of $21,601 relating to a vehicle.

The Corporation's operating results for the last five fiscal periods are outlined in Figure 4.

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Figure 4

Coast of Bays Corporation
Operating Results

Category	Year ended 31 March 1999	Year ended 31 March 2000	Period ended 30 June 2000	Year ended 30 June 2001	Year ended 30 June 2002
CEDA/SRDA contributions	$ 231,000	$ 259,942	$ 39,553	$ 170,000	$ 170,000
HRDC contributions	110,370	-	-	214,706	203,910
Other contributions, etc.	25,767	95,815	44,587	99,877	155,084
Total revenues	**367,137**	**355,757**	**84,140**	**484,583**	**528,994**
Salaries and Benefits	147,905	178,419	57,033	230,901	268,314
Contracted services	-	39,803	2,214	67,632	51,690
Travel	29,309	51,291	13,256	68,966	67,295
Other	97,807	157,557	22,483	104,130	150,964
Total expenses	**275,021**	**427,070**	**94,986**	**471,629**	**538,263**
Net income (deficit)	**$ 92,116**	**$ (71,313)**	**$ (10,846)**	**$ 12,954**	**$ (9,269)**

Source: Corporation Financial Statements
Note: The 2002 financial statements were audited while all others were unaudited.

The Corporation receives its funding from the Federal and Provincial governments. Approximately $1.2 million in funding was received relating to administration expenses since the Corporation's inception in 1996, while $640,000 was received to fund initiatives in accordance with the Corporation's strategic economic plan.

Although the Corporation had an accumulated surplus of $88,919 at 30 June 2002, as Figure 4 shows, it had operating deficits for the year ended 31 March 2000, the period ended 30 June 2000 and the year ended 30 June 2002.

2.24 Coast of Bays Corporation

Our review of the Corporation's financial position and operating results identified the following issues:

- The operating results presented in Corporation's financial statements do not show separate amounts for administration revenues and expenses and project revenues and expenses.

- The Board receives information on cash balances and accounts receivable; however, it is not receiving financial information on actual expenditures and comparisons to budget on a regular basis.

- The Corporation only prepares its HST claim after year end. More frequent claim submission would allow HST amounts due to be received earlier. A claim for the year ended 30 June 2002 was for an amount in excess of $16,000. Also, the Corporation is not claiming HST on all eligible travel allowances such as meals and mileage.

Planning, Monitoring and Reporting

The Corporation's mandate is to provide a leadership role in the development and implementation of its Strategic Economic Plan, provide support to communities and organizations within the zone, coordinate all social and economic initiatives relating to regional economic development in the zone, promote public participation and community education, and promote the development of local leadership. To facilitate the achievement of this mandate, the Corporation operates through a Board of Directors elected to represent various stakeholders.

The Corporation's first Strategic Economic Plan was a five-year plan which covered the period 1997 to 2002. The Corporation updated that plan in 1999 and prepared another Strategic Economic Plan in September 2002 which covers the period to 2005. The Corporation also prepares an annual Work Plan and an annual budget. To effectively monitor activities of the Corporation and to evaluate progress towards meeting the objectives contained in its Strategic Economic Plan and its annual Work Plan, the Board requires complete and timely information on how Corporation resources are utilized.

Our review of Board activities and the Corporation's planning, monitoring and reporting indicate that improvements are required. We identified the following issues:

- While the Board does receive some information on the status of how projects are proceeding, discussion with Corporation officials and our review of minutes of Board meetings indicated that there was insufficient information provided by Corporation officials at these meetings to enable the Board to monitor how resources were utilized in meeting stated objectives contained in work plans and the Strategic Economic Plan.
- There is no annual evaluation of the various initiatives and projects undertaken by Corporation officials which could be used by the Board or Management Committee to determine whether the initiatives or projects achieved the intended results and contributed to planned objectives.
- Minutes of Board meetings are kept and approved at the next Board meeting; however, none of the Board minutes were signed to identify them as the official board minutes.
- Minutes of Board and committee meetings often did not contain approval for specific actions. For example, although we were informed that, as a matter of practice, Board approval is required for all expenditures over $150, such approval was seldom evident.

Compliance with Performance Contract

The Corporation's administrative funding is based on a performance contract between the Federal and Provincial governments and the Corporation. Therefore, the Federal/Provincial Management Committee requires information on the Corporation's compliance with this performance contract.

When the Corporation first commenced operations in 1996, it was in Phase 1 and was funded by the Provincial and Federal governments to develop a strategic plan. After the finalization of its strategic plan, the Corporation entered into a joint Phase 2 performance contract with the Provincial and Federal governments covering the period 1 July 1997 to 30 June 2002. The Corporation entered into separate performance contracts with the Provincial and Federal governments in July 2002.

These contracts include a number of requirements for the Corporation such as financial framework, monitoring, evaluation, and reporting. We identified several instances where the requirements of the performance contract were not being complied with as follows:

- In August 2001, the Corporation purchased a four wheel drive sport utility vehicle costing $25,742. The contract indicates that funding is provided to cover eligible direct operating costs and, in cases where deviations from eligible expenses are going to be made, requires that written approval of the Management Committee be obtained. The purchase of this vehicle does not qualify as an eligible operating cost and would, therefore, require written approval. No such written approval was either requested or provided.

- Contracts between the Corporation and the Federal Government do not provide the Corporation with the authority to increase approved salaries without prior approval. However, in 2002-03 the Board approved a salary bonus of $1,000 for an employee without obtaining the required approval. The employee was hired to work on one of the Corporation's projects; however, the salary bonus was paid from administration funds.

- The Phase 2 contract effective 1 July 1997 included indicators such as collection and analysis of data, investment, number and type of businesses and other information. The new contract effective July 2002 also required a report on economic activities including the degree to which new infrastructure has contributed to increased economic activity, the number of new business start-ups and the expansion of existing businesses, and the value of economic development initiatives funded. Although the semi-annual reports include the information required under the Phase 2 contract effective 1 July 1997, the new information required under the contract effective July 2002 was not provided in the Board's most recent semi-annual report. Furthermore, discussions with Corporation officials indicated that they have not yet developed a means to gather the required information.

- Although performance contracts specifically disallowed expenditures for gifts, from 1 July 2001 to 31 March 2003, the Corporation purchased gifts totalling $287 for staff upon leaving the Corporation or in appreciation for work performed. As well, in December 2001 and 2002, the Corporation spent $1,797 and $2,473 respectively on Christmas parties held for Corporation Board members and staff, their spouses and guests. Expenses included hotel rooms, food, liquor and entertainment charges.

These were not direct operating expenditures as defined in the contract and therefore would have required specific approval from the Management Committee. No such approval was obtained.

- While the contract requires that annual financial statements be provided to the Management Committee within 90 days after year end (i.e. 30 September), for the year ended 30 June 2002, they were not provided until after December 2002.

- The funding agreement between the Province and the Corporation which expired in June 2002 required the Corporation to repay any unexpended operational funds promptly and in any event within 30 days of written notice by the Management Committee. The Corporation has not remitted any unexpended operational funds and furthermore, the Corporation has not received written notification requesting that the amounts be repaid.

  The new contract effective July 2002 requires the Corporation to repay any unexpended operational funds within 30 days of written notification by the Minister.

Controls and Expenditures

We reviewed the Corporation's purchasing practices to determine if they were adequate. The Corporation has only two staff in the administration area which provides a challenge in the establishment of segregation of duties and controls over expenditures. However, given the limited number of staff, it is even more important that the Corporation be vigilant and have a system in place to maximize controls which are available.

Our review identified numerous instances where controls over expenditures were not in place, were inadequate or were disregarded. For example:

- Although the Corporation has established purchasing policies and procedures which are documented in its Policy Manual, they do not cover all aspects of the purchasing function. For example, there is no guidance related to purchase order preparation, expenditure approvals, accounting controls, payment verification, and monthly supplier reconciliations.

- Cheques are not always signed by two people as required. Unused cheques on hand for the operating bank account and the vehicle bank account are pre-signed by one of the authorized signing officers. A signature stamp for the Chairperson of the Board is then applied by the Administrative Assistant.

- Although bank reconciliations are performed monthly by the Administrative Assistant, they are not reviewed by another Corporation official.

- We were informed that, as a matter of practice, approval is obtained from the Board for purchases greater than $150. However, in many cases there is no documented evidence of this approval. Controls would be strengthened if all required approvals were in writing.

- Although the Board's policy is that any expenditures in excess of $7,500 are to be publicly tendered, we found that the Corporation purchased a vehicle at a cost of $25,742 without a public tender and also undertook road construction work at a cost of $12,709 without a public tender. We also found weaknesses with the Corporation's tendering process relating to a tender for office space valued at $9,840 per year for a three year period effective 1 January 2002. For example:

  - The tender opening was not public; instead, the tenders were opened by the Executive Committee. However, officials could not provide us with a tender opening record.

  - The tender specifications did not identify the Corporation's space requirements, the lease term that was required and whether HST, heat and light was to be included in the bid price. None of the five bids examined indicated the lease term, four of the bids examined did not indicate whether heat and light or HST was included in the bid price and two of the bids examined did not indicate the volume of lease space offered. The Corporation could not provide any documentation as to how the bids were analysed.

  Furthermore, as a result of these weaknesses, the Corporation could not demonstrate that the best bid was accepted. The minutes of an Executive Committee meeting on 24 October 2001 indicated that, "*... several directors have received phone calls, and several letters of appeal have been written...*" with respect to the tender of office space.

- Although the Board has a policy whereby three written quotes should be obtained from potential suppliers of goods or services that exceed $1,000 per item, we found instances totalling $22,983 where the required three written quotes were not obtained, as follows:

• Accounting firm	$5,429
• Legal fees	4,676
• Survey fees	2,741
• Travel accident insurance	1,575
• Aquaculture Forum expenditures	8,562
Total	$22,983

- The Board is renting an Aquaculture office in Harbour Breton at an annual rental cost of $5,400. While the Board did issue a public tender for this space, it does not have a written agreement in place and, as a result, officials could not demonstrate whether all rental terms and conditions have been met or when this rental arrangement will expire.

- There were a number of issues relating to travel claims as follows:

    - Travel claims do not always include the date of travel or the time of departure and return. Also, the purpose for travel was not always listed and entertainment expenses did not always include who was in attendance and the purpose of the meeting. Without this information it is difficult to determine if the travel expenditures claimed were legitimate.

    - Travel claims are not always signed by the claimant or appropriately approved. Many travel claims are approved by way of a signature stamp containing the signature of the Chair. Officials indicated that the normal practice is to fax a travel claim form to the Chairperson who will provide verbal approval by a return telephone call prior to the signature stamp being applied. This process is not adequate in that the travel claims are being paid without documented evidence of approval.

    - There was one duplicate claim for $94 made by a Corporation staff member. In this instance, the staff member submitted two separate claims for personal mileage and meals when the expenses were incurred only once.

  - Two separate claims totalling $453 were paid for mileage incurred on the Corporation's vehicle although the travel was incurred only once. This duplicate payment was not detected by the Corporation and consequently the Corporation's vehicle bank account was overpaid $453.

- In December 2001, the Corporation obtained a credit card issued in the name of the Executive Director. Our review of purchases made with this credit card from 1 January 2002 to 31 March 2003 indicated the following:

  - There were 30 purchases totalling $1,364 where there was either no receipt or there was insufficient documentation to support the purchase and to support that the purchases were legitimate Corporation expenditures.

  - The Corporation had to pay interest totalling $41 over a 14 month period on the outstanding credit card balances because monthly balances were not paid as due.

- Although we were informed that all purchases over $150 are to be approved in advance by the Executive Committee and Board, for the most part these approvals are not documented.

Project Administration

The Corporation hires staff as required to head initiatives it has identified to forward its strategic plan. Such initiatives include: Strategic Plan Implementation, Human Resources Project, Aquaculture Development, Interpretation Centre, Access Road and Wharf, and Sea Urchin.

Controls over project administration require improvement. Our review of the projects indicated the following:

1. Interpretation Centre

In October 2000, a project was approved for the development of an Interpretation Centre in the Coast of Bays Region and at that time the Corporation hired a consultant to conduct this work. The estimated cost to complete the work was $110,000. Our review of activity to date for this project indicated the following:

- The Corporation did not enter into a written contract with the consultant to outline roles, responsibilities and deliverables.

- The development plan proposed by the consultant was deemed unuseable because the consultant maintained that they had copyright to the Interpretation Centre building design. This matter was further complicated because there was no written contract. The project had five phases and both parties agreed to terminate the work following the completion of the project's third phase in March 2002. The consultant was paid a total of $88,000.

In May 2002, the Corporation hired an engineer to complete work relating to the site selection and design of the Interpretation Centre. The estimated cost to complete this work was $11,500. The recommendation for the site selection was made in September 2002 with the building design being provided in January 2003. The engineer was paid $11,491 for this work. Our review indicated that contrary to its public tender policy, the Corporation did not call a public tender for this work. Furthermore, no other quotes were obtained for this work.

In May 2003 the Corporation issued a tender call for the construction of an Arts and Exploration Center in the Coast of Bays Region. At the time of our review, the tender process had not been completed and the contract had not been awarded. The estimated cost of the Center is approximately $1.6 million which is to be funded primarily by the Federal Government.

The construction of this property and responsibility for ongoing operating and maintenance costs is not consistent with the Corporation's existing mandate.

2. Access Road and Wharf

In December 2001, a project was approved to construct a road and wharf to Connaigre Bay to provide mussel farmers with a year-round loading and unloading area. Up to the date of our review, the Corporation has spent $51,827 on this project. Our review of this project indicated the following:

- The Corporation did not have procedures in place to ensure the proper construction of the road and wharf. Rather than hire a professional engineer, the Corporation indicated it relied on the judgment of a contractor and local mussel farmers in determining the construction of the road and wharf.

- Upon completion of the road and wharf, it was determined that the grading of the final section of the road was too steep where it met the water, preventing vehicles from accessing the wharf as required.

As a result of the problem with the road grading, the Corporation has to construct a new section of road and move the wharf so that vehicles will be able to safely access the wharf. It is estimated that this work will cost the Corporation an additional $10,323.

- Contrary to its public tender policy, the Corporation did not call a public tender for work costing $12,709 to complete a portion of the access road to the wharf. Corporation officials indicated that the contractor was selected based on a low quote of $9,500 after two quotes were obtained; however, officials could only provide us with the successful bidder's quote. As a result, officials could not demonstrate how the bids were analysed and whether the best bid was accepted. Corporation officials indicated that the additional $3,209 was paid to the contractor to widen the turnaround to provide access for tractor trailers.

Access road and wharf in Connaigre Bay

3. Sea Urchin Project

In March 2002, a project was approved to conduct a resource biomass survey of sea urchins and related species. The Corporation spent $11,200 on this project for boat rental and diving costs. Our review of this project indicated the following:

- Although Corporation officials indicated that a public tender was called for these services, due to the fact that expected hours and hourly rates were not indicated on all bids received, officials could not demonstrate how the bids received were analysed and whether the best bid was accepted.

- One of the Corporation's employees was paid $2,250 for diving services provided while they were also being paid by the Corporation for normal work duties which do not include diving activity. The Corporation was unable to provide documentation to indicate whether the employee was required to make-up the working hours lost while diving.

Human Resources

The Corporation has a full-time Executive Director and an Executive Assistant working in the administration area. The salaries of these two employees are paid through the administration account. Other staff are hired for various terms on a project basis and are funded through various programs offered by the Federal and Provincial governments.

Employee salaries and benefits are the largest expenditure items of the Corporation. Our review indicated that the operating results presented in Corporation's financial statements do not show separate amounts for administration expenses and project expenses.

We reviewed the Corporation's human resource practices and selected seven project staff hires to determine what practices were followed. Our review indicated that the human resource practices require improvement. Issues identified are as follows:

- Although the Corporation's policy is to publicly advertise for project staff positions to be filled, three positions were filled without a public job competition.

- One file to support a job competition could not be located by Corporation officials.

- Of the six job competition files available for review, three files did not contain sufficient information to establish how the successful candidate was determined.

- There are no attendance records kept for staff to keep track of leave usage and accumulated balances and, although records for time off in lieu of overtime are maintained, there is no approval for overtime worked.

- There is no independent review by Corporation officials of the payroll journal and related pay cheques for each pay period. Pay cheques for workers paid from the project bank account are subject to signing by the Executive Director, with the second signature of the Board Chair applied by signature stamp.

- The Board's policy on statutory leave is inconsistent with the Provincial Government in that employees are provided with an extra day during Easter and the Board offices were closed during the Christmas period from 23 December 2002 to 2 January 2003. Employees were not required to use any of their leave for these days.

- The Corporation did not have a policy which required that employees have a performance evaluation completed. As a result, employees were not provided with feedback regarding their performance.

Capital Assets

The Corporation has established operational policies and procedures governing the acquisition, movement, disposal, identification and recording of capital assets. As at 30 June 2002, the Corporation's audited financial statements reported $87,352 in capital assets.

Our review indicated that the Corporation is not adequately controlling its capital assets. The following issues were identified:

- The inventory listing is not maintained on a current basis. The Corporation's policy manual requires that an inventory of all office equipment and furnishings be kept that includes information on the asset model name, serial number and cost. Although the Corporation did maintain listings of its capital assets for both the main and Aquaculture offices, the listing for the main office had not been updated since June 2001, and the information required in the policy manual was not always provided in the listing.

- The inventory listing is not accurate. We selected 15 items and found 1 instance where a computer on the main office listing had recently been disposed of but had not been removed from the listing.

Vehicle

In August 2001 the Corporation purchased a four wheel drive sport utility vehicle. In addition to being an ineligible operating cost under the Performance Contract, our review of the purchase, financing, and use of this vehicle indicated the following:

- Although the Board's purchasing policy requires a public tender for purchases in excess of $7,500, no public tender call was made for this vehicle which had a purchase cost of $25,742. Furthermore, although the Corporation obtained three price quotes from two dealerships, the quotes provided were for vehicles with different specifications.

- The Corporation opened a bank account for the purchase of the vehicle in an attempt to circumvent the performance contract which did not permit such a purchase. The Corporation obtained financing of $29,798 for the vehicle, requiring monthly payments of $839 over a three year period starting in September 2001. These payments are being made from the vehicle account. Deposits to this account resulted from charges to the project and operating accounts for the use of the vehicle and other assets as well as from surplus funds from an aquaculture project. Charges for administrative and project travel using the vehicle was paid from their respective accounts to the vehicle account based upon travel claims prepared by staff. We note that these recoveries were not sufficient to pay for the complete cost of the vehicle. To supplement travel recoveries claimed, additional charges for unrelated project costs such as rent, heat and light, etc. were paid from the operating account and the related revenues that were generated were deposited to the vehicle account. This is inappropriate as cost recoveries which should have been deposited to the Corporation's operating account from which the payments were made, were instead deposited to the vehicle account.

  Since the bank account was established on 1 September 2001 to 31 March 2003, a total of $56,555 was deposited to the account while $36,192 was spent, leaving a balance at 31 March 2003 of $20,363. Details of these transactions are as follows:

2.24 Coast of Bays Corporation

Deposits	**Total $**
Balance of funds re: aquaculture forum project	17,849
Travel claims	17,849
Rent, heat, light, telephone, photocopying and internet service	17,411
Interest	2,133
Chain saw and under-water camera rental	1,313
Total deposits	**56,555**
Disbursements	
Vehicle payments	16,167
Furniture for boardroom and office	4,666
Vehicle operating costs	7,466
Advances (net of repayments) to operating and project accounts	6,000
Other	1,893
Total disbursements	**36,192**
Balance	**20,363**

Source: Corporation's interim financial statements

Corporate Vehicle

- Although the Corporation has a control log to record vehicle usage, it is not complete. At the time of our review, the vehicle odometer showed approximately 52,000 kilometers whereas the log accounted for approximately 35,000 kilometers. Although we identified travel claims totaling approximately 5,600 kilometers relating to the corporate vehicle that were not recorded in the log, officials could not provide any evidence as to whether the remaining 11,400 kilometers was used for Corporation business.

- We traced all travel recorded in the control log to travel claims to determine whether all claims were deposited into the vehicle account. In four instances totaling $554, Officials could not provide evidence that travel claims for the Executive Director were deposited to the vehicle bank account as required.

In addition, by purchasing boardroom and office furniture costing $4,666 from this bank account, the Corporation avoided the necessity of having to budget for these purchases as would be the normal process.

Recommendations

The Corporation should:

- *comply with its policies to issue public tenders for expenditures in excess of $7,500 and to obtain quotes for expenditures in excess of $1,000;*

- *comply with the requirements of its performance contract;*

- *provide the Board with information on projects at its regular meetings to monitor how resources were utilized in meeting stated objectives, and prepare an annual evaluation of initiatives and projects to determine what results were achieved;*

- *ensure that adequate documentation exists to support payment decisions and that only appropriate payments are made;*

- *ensure unused cheques are not pre-signed and bank reconciliations are independently reviewed;*

- *ensure sufficient information is available prior to contracting for work so that all resulting work completed is usable;*

- *ensure all project work is in accordance with the Corporation's mandate;*

- *ensure all jobs are filled in accordance with Corporation policy including the requirement for public job competitions, and ensure that documentation exists to support its human resource activities; and*

- *have a complete and accurate record of its capital assets.*

Corporation's Response

Firstly, we appreciate the weaknesses which you have pointed out in the report and where possible, necessary changes have been made. At the time of audit, a major policy review was already underway and many improvements have resulted. These include: Board meeting minutes are now being signed by the Secretary and Chair; purchase orders have been put in place; asset list is up to date (previously done at year end by the Accountant); audited year ends are being done; although not bound by the Public Tendering Act, a macro evaluation matrix has been developed (to be adapted per project); and signing authority has been granted to the executive director to eliminate the need for pre-signing cheques given the distance of Directors from the main office.

The Coast of Bays Corporation is servicing 22 communities with only two core staff. Board members reside throughout the entire region, and the head office is located in St. Albans. From both a time and cost perspective, the volunteers quite simply cannot manage the office like it were a government department. Indeed, the Boards operate at arms length from government and as such, policies that apply to managing (and rewarding) government staff are quite different than that of not-for-profit boards. There is no comparison between civil servants and local volunteers/development personnel from either a workload or benefits perspective, therefore, your audit team should not be comparing us to a bureaucratic system.

General Observations

- ***Project Administration***

Your statements here reflect a limited understanding of what transpired. Payment of the $88,000 was a recommendation of the funding partners, a decision that was made and agreed to in the best interests of all parties involved. Again, with respect to the road and wharf, the Board acted on advice from personnel of Works, Services and Transportation. As such, it *is our strong feeling that we are being condemned for doing what government departments recommended we do.*

- ***Human Resources***

Annual performance evaluations are now being done, and were already in the process of development prior to being audited.

- ***Human Resources***

To follow what you are suggesting for job competitions of HRDC funded staff positions would be ludicrous, and a complete waste of time and taxpayers money. The reality is, all government departments we work with acknowledge that more professional staff are needed in rural, remote areas to pursue diversification opportunities but no one wants to pay for it. The only reason the job title changes is because the program criteria "interpretation" changes each year - the nature of the job itself does not. Personnel now on staff funded by HRDC have established the contacts and acquired the expertise needed to do the job. Laying such individuals off each year would result in:

a) Danger of losing qualified staff due to being repeatedly laid off - they simply would leave the area, if not the province - then where would we be?

b) Lost time, and totally unnecessary expenses - for volunteers and core staff. Advertising and interviewing would result in additional costs and work for the interview process, not to mention the lost work time for the job in question - this process could result in losing two or three months of a twelve month contract merely for a paper exercise - how wise is that?

This issue speaks to the need for better co-ordination of federal and provincial programs designed to foster economic growth. We do not necessarily need more money, just better administration mechanisms within government for existing allocations.

- ***Reporting (third bullet)***

This comment is rather offensive. On the first day of the Audit Teams arrival at the office, the Executive Director took the Performance Contract with the Province (there is a separate contract with different requirements for the federal government) and specifically pointed out items E (degree to which new infrastructure has contributed to increased economic activity) and H (value of economic development initiatives funded through the public sector) as two areas that were, quite simply, unrealistic for the Board to meet because we do not have access to such information.

It is our view these items should never have been included in the Performance Contracts. This is a role more suited to bureaucrats, who really should know what they are approving funding for. The only way we could access such information is by going through the Freedom of Information Act, and we do not have sufficient staffing resources for such a time consuming activity. We have no way of knowing all the federal and provincial pots of money that exist, let alone how much gets approved, and for whom. In the case of the private sector, surely, it is none of our business.

We have raised our concerns to the Annual Renewal Committee, and they understand it quite well. We will endeavour to lobby them to correct this wording in the contracts, but certainly do not appreciate being criticized by your Auditors for something which was brought to your attention as being beyond our control.

As for statistics pertaining to business and housing starts, these are collected annually and reported in the Strategic Plan.

- ***Vehicle***

Offense is also taken to your comment that the KIA purchase was a deliberate attempt to circumvent the performance contract when in effect, it was a deliberate attempt to spend allocated money as wisely and cost-effectively as possible.

Given the distance driven by staff each year to cover such a geographically dispersed service area, leasing is not an affordable option. Although it is not written anywhere on paper, government was well aware of the KIA and they understood our rationale. A separate account was opened for staff to contribute their travel claims, which would otherwise have been used for their personal vehicles (...who do not have the benefits of a vehicle allowance as is provided to government employees).

Inaccuracies

- ***Arts and Exploration Centre***

The Board is constructing an Arts and Exploration Center at the junction of route 360 and 361. Once constructed, this will be operated as an entity in and of itself. By-laws and the structure of the Board of Directors have already been developed. It is our view that as community economic developers, this is exactly the type of thing we should be doing to effect growth and sustainability, in this case for the tourism and cultural sectors. However, your commentary further highlights the need for government to *expand the role of REDB's for projects which are regional in scope and benefits.*

- ***Financial position***

Attached is the Corporation's audited financial statement for the year ended June 30th, 2003. How is the operating surplus of $88,919 being derived? Accounting for the Corporation as a not-for-profit entity is based on fund accounting. Your statement that there is a surplus is very misleading. As per the audited statement, the actual surplus was $6,472. The assets purchased are reflected on the balance sheet, but are not expensed or depreciated. If they were, they would show little value today.

- ***Planning, Monitoring and Reporting***

This statement is completely inaccurate, and we cannot understand the basis upon which your audit team could make such commentary. Various Board members, depending on which sub-committee they serve, are very much in tune with each initiative underway. Each staff member and sub-committee chair regularly reports on their activities at every meeting. Board minutes reflect general discussions and motions, not specifics.

In addition, each Director receives detailed mail-outs prior to every meeting including proposals, office reports, correspondence summaries, letters written/received, minutes of various committees and conference reports, etc. This information is provided to the Board of Directors only. It is not distributed to ex-officio's (ITRD, ACOA, HRDC), unless they are directly involved in a particular project.

If you have any better ideas for how the reporting should be done, we welcome your suggestions. With reference to the second bullet, it was our understanding that the Management committee (now called the Renewal Committee) was indeed doing an annual evaluation of the Board's initiatives as part of the annual renewal process.

- ***$554 in travel claims***

The travel claims in question ($242; $144, $84; $84) were not deposited to the KIA account because the Executive Director was instructed by the Board to allocate the funds as follows: (Aquaculture Forum Appreciation; Staff Development; Staff Development and Central Caucus Appreciation, respectively). An excerpt from minutes of the last Board meeting (November 4, 2003) confirm this has been provided.

In closing, it was felt that overall, the Auditors were remiss in failing to acknowledge the vast amount of work undertaken, successfully at that, by unpaid volunteers and our limited staffing resources. It is our position that given the insufficient level of staffing resources and lack of training in exactly what is required for record keeping from an auditor's perspective for operating procedures, we have performed exceptionally well.

2.24 Coast of Bays Corporation

2.25 Discovery Regional Development Board Inc.

Introduction

In 1992, the Province's Strategic Economic Plan recommended the creation of economic zones which would:

- facilitate the development of economic plans by the people in each zone;
- facilitate joint initiatives by communities within the zone;
- promote the economic opportunities and strengths of each zone and region; and
- facilitate more regionalization of Government administration.

In January 1995, on the basis of recommendations from the Task Force on Community Economic Development, Cabinet approved the establishment of 19 (now 20) regional economic zones and regional economic development boards.

Initially, Government established provisional boards to determine the structure and process of establishing permanent boards. The permanent boards were established as incorporated entities with democratically elected members who are community based. The 20 regional economic development boards are outlined in Figure 1.

2.25 Discovery Regional Development Board Inc.

Figure 1

Regional Economic Development Boards
31 March 2003

Economic Zone #	Regional Economic Development Board	Head Office Location
1	Inukshuk Economic Development Corporation	Makkovik
2	Hyron Regional Economic Development Corporation	Labrador City
3	Central Labrador Economic Development Board Inc.	Happy Valley - Goose Bay
4	Southeastern Aurora Development Corporation	Cartwright
5	Labrador Straits Development Corporation	Forteau
6	Nordic Economic Development Corporation	Flower's Cove
7	Red Ochre Regional Board Inc.	Parson's Pond
8	Humber Economic Development Board Inc.	Corner Brook
9	Long Range Regional Economic Development Board	Stephenville
10	Marine and Mountain Zone Corporation	Port aux Basques
11	Emerald Zone Corporation	Springdale
12	Exploits Valley Economic Development Corporation	Grand Falls - Windsor
13	Coast of Bays Corporation	St. Alban's
14	Kittiwake Economic Development Corporation	Gander
15	Discovery Regional Development Board Inc.	Clarenville
16	Schooner Regional Development Corporation	Marystown
17	Mariner Resource Opportunities Network Inc.	Carbonear
18	Avalon Gateway Regional Economic Development Inc.	Dunville
19	Capital Coast Development Alliance	St. John's
20	Irish Loop Regional Economic Development Board	Trepassey

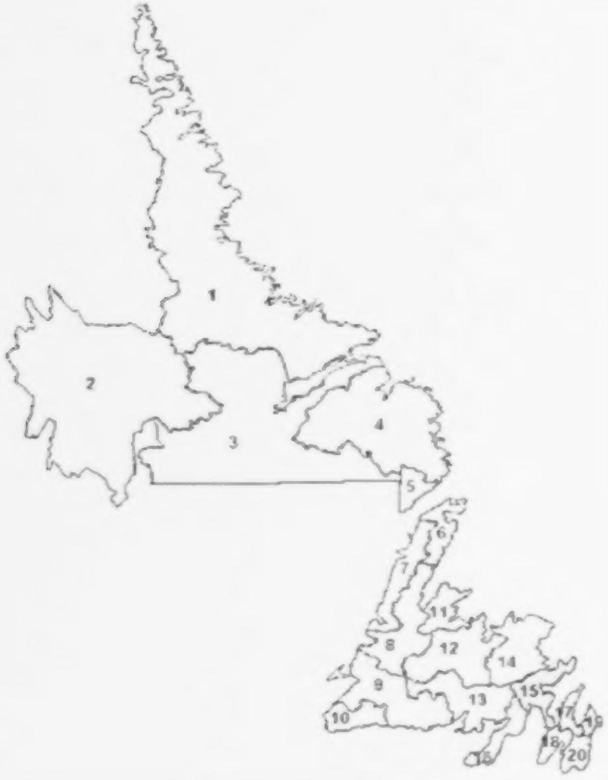
Source: Department of Industry, Trade and Rural Development

The Discovery Regional Development Board Inc. (Zone 15) covers an area on the island's east coast, including 109 communities, with a combined population of approximately 33,470 (1996), bounded by Bonavista, Port Blandford, Swift Current and Chapel Arm. Figure 2 shows the area covered by the Corporation.

2.25 Discovery Regional Development Board Inc.

Figure 2

Economic Zone 15
Discovery Regional Development Board Inc.
Location and Boundaries



The Corporation is governed by an elected board of directors representing major stakeholder groups in the region. The Board is comprised of 17 representatives as follows:

- 6 members representing municipalities;
- 3 members representing development associations;
- 3 members representing business;

- 3 members elected at large;
- 1 member representing education; and
- 1 member representing labour.

Scope and Objectives

We completed our review of the Discovery Regional Development Board Inc. in May 2003. Our review covered the period from 1 September 2001 to 31 March 2003. The objectives of our review were to:

- review the financial position and operating results of the Corporation;
- assess whether the management practices and control systems at the Corporation are adequate to provide information to management and the Board of Directors for decision making and control of the Corporation's revenues and expenditures;
- assess the Corporation's compliance with the terms of its performance contract, related agreements, and relevant authorities;
- determine whether controls over the purchasing of goods and services are adequate and that such expenditures are made in accordance with the Corporation's policies and procedures; and
- assess whether the Corporation's capital assets are adequately controlled and accounted for.

We had planned to commence our review in early April 2003; however, we found that the Discovery Regional Development Board Inc. had not been in operation since December 2002. We were informed that the Corporation's inability to obtain Directors' and Officers' liability insurance had resulted in the termination of staff employment, closing of operations, and suspension of funding.

Corporation staff were rehired on 21 April 2003 when the Corporation secured liability insurance and had operational funding reinstated. Our review commenced on 22 April 2003. On 15 May 2003, the power to the building which housed the Corporation was discontinued, resulting in the suspension of our field work. We were advised that the power was discontinued due to the owner of the building, the Discovery Opportunity Centre Inc., not paying its electric bills. Further constraints were imposed on our review as one of the two existing Corporation staff was not employed during the full period of our review.

2.25 Discovery Regional Development Board Inc.

Conclusions

In March 2003, the Public Accounts Committee made a resolution that "... *the Auditor General be asked to consider performing an audit of the Regional Economic Development Boards in the Province ...*". Further to this resolution, I performed an audit of three zonal boards during the year. As requested by the Public Accounts Committee, the results of my work are included in my Annual Report to the House of Assembly on Reviews of Departments and Crown Agencies. This report item outlines my findings on one of the three zonal boards reviewed - the Discovery Regional Development Board Inc..

The Discovery Regional Development Board Inc. was incorporated in May 1996. The Corporation, along with 19 other regional economic development boards, was established on the basis of recommendations made to Cabinet in 1995 by the Task Force on Community Economic Development. The Corporation covers an area on the island's east coast, including 109 communities, with a combined population of approximately 33,470 (1996).

The Corporation receives its funding from the Federal and Provincial governments. Due to the lack of externally prepared financial statements for all years since the Corporation's inception in May 1996, we were unable to determine the total funding received relating to administration expenses since the Corporation's inception or the amount received to fund initiatives in accordance with the Corporation's Strategic Economic Plan.

Our review indicated that the Corporation did not always publicly tender for goods and services, did not fully comply with its performance contract with the Federal and Provincial governments, and that improvements in controls are required in several areas. Specifically:

- **Property Purchase.** One item of particular concern resulting from our review relates to the purchase of a property by the Discovery Opportunity Centre Inc. (DOC). The DOC was a company established by the Corporation for this purpose. The property was intended to provide rental accommodations for the local IT sector as well as for Corporation administrative and program staff. The property was purchased in July 2000 for $82,645 with an estimate of $519,500 for extensive renovations. Based on the most recent information available, the DOC owes $740,824 relating to the property purchase and renovations, consisting of $51,519 for the bank mortgage and $689,305 for various creditors.

Our review of the Corporation's involvement with the DOC property indicated the following:

- The Corporation violated the terms of the performance contract by indirectly purchasing the DOC property. The performance contract indicates that funding is provided to cover eligible direct operating costs and, in cases where deviations from eligible expenses are going to be made, requires that written approval of the Federal/Provincial Management Committee be obtained. The purchase and renovation of the DOC property does not qualify as an eligible operating cost and would, therefore, require written approval. While the proposal relating to the DOC property was discussed with the Management Committee, no such written approval was provided. The establishment of the DOC, to enable the purchase and renovation of the DOC property, was designed by the Corporation in an attempt to circumvent the performance contract which did not permit such activities.

- No public tender was called for the purchase of the initial property which cost $82,645, and no information was provided that would suggest the Corporation considered other methods of securing the required accommodations. Therefore, the Corporation could not demonstrate whether the most appropriate space was obtained at the best price.

- No public tenders were called for any of the goods and services acquired during the renovation.

- Expenditures totalling $46,050 were incurred by the Corporation on behalf of the DOC.

- At the time of our review, renovations on the building had not been completed, the lone remaining IT sector tenant which had occupied some of the space had left, all former DOC Board Directors except the former President of the Corporation had resigned, several suppliers had yet to be paid for goods and services provided, and both the bank mortgage and a second mortgage with a local building materials supply company were in payment default. The total amount owed to all creditors at the time of our review was $740,824, which included balances and related interest/service charges of: $51,519 relating to the bank mortgage; $449,416 relating to the second mortgage with the building materials supplier; and $239,889 relating to other creditors.

- **Planning, Monitoring and Reporting.** No new long-term Strategic Economic Plan was developed to replace the original plan prepared in 1997 and which expired in 2002. Without a long-term strategic plan to provide a focus, it was difficult for the Corporation to demonstrate how annual initiatives contributed to any long-term objectives.

  Also, while the Board did receive some information on the status of how projects were proceeding when it met, we found that there was insufficient information provided by Corporation officials at those meetings to enable the Board to monitor how resources were utilized in meeting stated objectives contained in work plans and the Strategic Economic Plan which expired in 2002.

  As well, there was no annual evaluation undertaken by Corporation officials of the various initiatives and projects which could have been used by the Board to determine whether the initiatives or projects achieved the intended results and contributed to planned objectives.

- **Compliance with Performance Contract.** The Corporation receives its funding based on a performance contract with the Federal and Provincial governments. We found that the Corporation had not fully complied with the requirements of this contract. Most notable is the indirect purchase of the DOC property referred to above, which was not an eligible cost under the performance contract.

  The Corporation is required to repay any unexpended operational funds promptly and in any event within 30 days of written notice by the Management Committee. However, the Corporation had not remitted any unexpended operational funds and furthermore, the Corporation had not received written notification requesting that the amounts be repaid.

- **Controls and Expenditures.** Although not documented as being Board policy, Corporation staff indicated that the Corporation follows the *Public Tender Act* in acquiring goods and services. Given that the DOC was established by the Corporation, we also used the *Public Tender Act* as a reference in reviewing the purchasing practices used by the DOC to ensure reasonable prices were obtained in acquiring goods and services relating to the purchase and renovation of the DOC property in Clarenville. The *Act* requires tenders to be invited where the cost of goods and services is more than $10,000. The *Act* also requires three quotes to be obtained for purchases of goods and services costing $10,000 or less.

We found that in relation to the DOC property purchase no public tenders were called for purchases in excess of $10,000. We also found instances related to the property purchase and other Corporation purchases, where three written quotes were not obtained for purchases of less than $10,000.

Our review also identified issues with respect to documentation and payment of travel claims. Of particular concern was a notification the Board received in July 2002, from the Atlantic Canada Opportunities Agency (ACOA), of irregularities in travel claims by two of the Corporation's Board members. Corporation staff informed us that the two Board members in question were found to be submitting travel claims to two ACOA funded boards for the same travel. In September 2002, the Board decided to suspend the two Board members indefinitely from the Board until ACOA or the two Board members could satisfactorily inform the Board that the matter had been resolved. We were informed by Corporation officials that no further action was taken in relation to this matter and that no monies were recovered from the two Board members.

- **Human Resources.** Corporation staff could not locate job competition files and personnel files. Given the absence of these files, we were unable to review the hiring practices of the Corporation or determine how people were selected for positions or whether salaries and benefits were in compliance with any employment contracts which may have been in place.

  Corporation staff indicated they are responsible for monitoring their own attendance and that there are no attendance or leave records maintained. Also, there is no documented approval for overtime worked.

  Our review also indicated that two complaints against the Corporation had been filed with the Human Rights Commission.

- **Capital Assets.** The Corporation does not have a complete and accurate record of its capital assets.

2.25 Discovery Regional Development Board Inc.

Findings and Recommendations

Financial Position and Operating Results

Government identified two phases to the implementation of the regional economic development boards and provided funding on that basis. Phase 1 included the development of a strategic plan for each zone while Phase 2 included the implementation of the strategic plans. The operational funding for the regional economic development boards was provided through the Comprehensive Economic Development Agreement (CEDA), (formerly Strategic Regional Diversification Agreement), and administered by the Department of Industry, Trade and Rural Development. Subsequent to the conclusion of the CEDA agreement in June 2002, the operational funding was provided by the Province and ACOA through separate agreements with the Corporation.

Our review of the Corporation's financial position included an assessment of the annual operating results and the year end assets and liabilities. The financial position of the Corporation, represented by its assets and liabilities, as at 31 August each year is presented in Figure 3.

Figure 3

Discovery Regional Development Board Inc.
Summary of Financial Position - Administrative Fund
31 August

Category	1996	1997	1998	1999	2000	2001
Cash	Not Available		$21,327	$ 23,067	$ 1,011	$ 500
Term deposit			33,413	22,295	-	-
Accounts receivable			5,568	17,812	6,540	5,317
Prepaid expense			-	2,100	-	-
Capital assets			6,619	26,252	26,252	28,745
Total assets			**66,927**	**91,526**	**33,803**	**34,562**
Bank indebtedness	Not Available		-	-	-	4,880
Accounts payable and accrued liabilities			3,575	900	23,760	9,420
Surplus (Deficit)			56,733	64,374	(16,209)	(8,483)
Investment in capital assets			6,619	26,252	26,252	28,745
Total liabilities and equity			**$66,927**	**$ 91,526**	**$ 33,803**	**$ 34,562**

Source: Corporation Financial Statements

Note: No financial statements were available for the period from the date of incorporation in May 1996 through 31 August 1997 and no externally prepared financial statements were available for the year ended 31 August 2002.

2.25 Discovery Regional Development Board Inc.

As Figure 3 shows, as at 31 August 2001, the Corporation had a net deficit of $8,483 and did not have any long-term debt.

The Corporation's annual operating results since its inception in 1996 are outlined in Figure 4. The annual operating results reflect the administration revenues and expenses while the net project revenues (expenses) reflect the total amount received for project funding less the amount provided by the Corporation for project funding.

Figure 4

Discovery Regional Development Board Inc.
Operating Results
Years Ended 31 August

Description	1996	1997	1998	1999	2000	2001
	ADMINISTRATION					
Revenue	Not Available					
CEDA/SRDA			$ 165,500	$ 168,000	$ 168,000	$ 168,000
Fees			-	14,084	12,626	7,500
Other			25,953	19,420	8,121	15,158
			191,453	201,504	188,747	190,658
Expenses	Not Available					
Salaries			103,276	98,486	125,321	103,832
Sponsorships			-	2,067	9,605	800
Travel and meetings			22,440	30,971	47,213	40,567
Other			24,537	62,339	50,374	37,316
			150,253	193,863	232,513	182,515
Net Administration			41,200	7,641	(43,766)	8,143
Total Project Revenues	Not Available		Not Available		930,958	585,921
Total Project Expenses					934,174	580,478
Net Projects					(3,216)	5,443
Total Surplus (deficit)	Not Available		Not Available		(46,982)	13,586
Contribution to Related Entity					(36,817)	(417)
Accumulated Surplus (deficit)	Not Available		Not Available		$(19,425)	$ (6,256)

Source: Corporation Financial Statements
Note: No financial statements were available for the period from the date of incorporation in May 1996 through 31 August 1997 and no externally prepared financial statements were available for the year ended 31 August 2002.

2.25 Discovery Regional Development Board Inc.

The Corporation receives its funding from the Federal and Provincial governments. Due to the lack of externally prepared financial statements for all years since the Corporation's inception in May 1996, we were unable to determine the total funding received relating to administration expenses since the Corporation's inception or the amount received to fund initiatives in accordance with the Corporation's Strategic Economic Plan.

Our review of the Corporation's financial position and operating results identified the following issues:

- The Board received information on cash balances; however, the information did not reflect expenditures incurred but unpaid and did not include explanations of variances from budget.

- There were no externally prepared financial statements from the date of incorporation in May 1996 through 31 August 1997. As well, consolidated financial statements which reflect the Corporation's combined administration transactions and project transactions were only available for the year ended 31 August 2001. While financial statements were provided for the year ended 31 August 2002, they were based on internally prepared financial information which did not include all transactions and balances and which did not accurately reflect the external auditor's adjustments from the previous year.

- The Corporation only prepares its Harmonized Sales Tax (HST) claim after year end. More frequent claim submission would allow HST amounts due to be received earlier. A final claim for the year ended 31 August 2001 totalling $10,398 was not filed until 29 March 2002, 4 months after the due date of 30 November 2001. The return was initially filed on 28 January 2002, but was completed incorrectly.

Planning, Monitoring and Reporting

The Corporation's mandate is to facilitate the development of economic plans for the zone, facilitate joint initiatives by communities within the zone, promote the economic opportunities and strengths of the zone and region, and facilitate more regionalization of Government administration. To facilitate the achievement of this mandate, the Corporation operates through a Board of Directors elected annually to represent various stakeholders.

2.25 Discovery Regional Development Board Inc.

The Corporation developed a five-year Strategic Economic Plan covering the period 1997 to 2002, prepares an annual work plan and an annual budget. To effectively monitor activities of the Corporation and to evaluate progress towards meeting the objectives contained in its Strategic Economic Plan and its annual work plan, the Board requires complete and timely information on how Corporation resources are utilized.

Our review of Board activities and the Corporation's planning, monitoring and reporting indicate that improvements are required. We identified the following issues:

- No new long-term Strategic Economic Plan was developed to replace the original plan prepared in 1997 and which expired in 2002. Without a long-term strategic plan to provide a focus, it was difficult for the Corporation to demonstrate how annual initiatives contributed to any long-term objectives. Although Government notified the Corporation in September 2000 that the revision of the Strategic Economic Plan was a condition of obtaining funding in following years, funding continued to be provided to the Corporation to the end of the funding period, 31 August 2002. Corporation officials informed us that they are currently developing a new Strategic Economic Plan.

- While the Board did receive some information on the status of how projects were proceeding, discussion with Corporation officials and our review of minutes of Board meetings indicated that there was insufficient information provided by Corporation officials at those meetings to enable the Board to monitor how resources were utilized in meeting stated objectives contained in work plans and the Strategic Economic Plan. The information that was provided consisted of reports as to the current status of the projects and was often verbal in nature.

- There was no annual evaluation of the various initiatives and projects undertaken by Corporation officials which could be used by the Board or Management Committee to determine whether the initiatives or projects achieved the intended results and contributed to planned objectives.

- Minutes of Board meetings are kept and approved at the next Board meeting; however, Board minutes were rarely signed to identify them as the official board minutes. As well, there was very little detail in the minutes and there were numerous in-camera discussions.

Our review also indicated that decisions being made and acted upon at the Executive Committee level were not always communicated to the full Board. For example, in August 2000 the Executive Committee discussed a transfer of the Corporation's cash surplus of $13,755 from its operating account to the Discovery Opportunity Centre Inc., a related company. There was no evidence that the disbursement to the Discovery Opportunity Centre Inc., approved by members of the Executive Committee, was ever discussed with the full Board.

- Minutes of Board and committee meetings often did not contain approval for specific actions. For example, although we were informed that while, as a matter of practice, prior approval is obtained from the Board for significant purchases, in many cases there was no documented evidence of prior Board approval.

- The Corporation has not complied with the *Corporations Act* in that notices of changes in directors have not been filed since May 2000, annual information returns have not been filed since March 2000, and Directors' and Officers' liability insurance had not been in place since April 2002. The Corporation had obtained a proposal for Directors' and Officers' liability insurance from a broker and had accepted the proposal; however, the Corporation was later notified by the broker that the offer had been rescinded as the insurance company involved had discovered that another of its brokers had earlier declined coverage for the Corporation.

Compliance with Performance Contract

The Corporation's administrative funding is based on a performance contract between the Federal and Provincial governments and the Corporation. Therefore, the Federal/Provincial Management Committee requires information on the Corporation's compliance with this performance contract.

When the Corporation first commenced operations in 1996, it was in Phase 1 and was funded by the Provincial and Federal governments to develop a strategic plan. After the finalization of its strategic plan, the Corporation entered into a joint Phase 2 performance contract with the Provincial and Federal governments covering the period September 1997 to August 2002. The Corporation entered into separate performance contracts with the Provincial and Federal governments in April 2003.

These contracts include a number of requirements for the Corporation such as a detailed financial framework, monitoring, evaluation, and reporting. We identified several instances where the requirements of the performance contract were not being complied with as follows:

1. Discovery Opportunity Centre Inc.

In June 2000, the Corporation established the Discovery Opportunity Centre Inc. (DOC). The DOC's mandate is *"...to acquire and house infrastructure required by the information technology sector and obtain support staff, as a means of stimulating local IT business development."* The DOC was intended to provide rental accommodations for the local IT sector as well as for Corporation administrative and program staff. The Corporation's Board of Directors also acted as the Board of Directors for the DOC.

In July 2000, the DOC purchased an existing property in Clarenville to provide the accommodations. The purchase price of the property was $82,645 which was funded through a bank mortgage of $60,000, with the remaining $22,645 funded through a payment received from the Discovery Regional Development Board Inc.

The building purchased by the DOC was essentially replaced through an extensive renovation. Renovation costs estimated by the DOC as of March 2001 totalled $519,500. Arrangements for financing the renovation costs included an increase of $35,000 in the existing bank mortgage, a second mortgage with a local building materials supply company for $325,000 to secure the supply of building materials, approved funding from Human Resources Development Canada of $149,590, and credit arrangements with local suppliers.

Based on the most recent information available, the DOC owes $740,824 relating to the property purchase and renovations, consisting of $51,519 for the bank mortgage and $689,305 for various creditors.

In September 2001, during the ongoing renovations, the Corporation moved its offices into the DOC building.

Discovery Opportunity Centre

Our review of the Corporation's involvement with the DOC indicated the following:

- The Corporation violated the terms of the performance contract by indirectly purchasing the DOC property. The performance contract indicates that funding is provided to cover eligible direct operating costs and, in cases where deviations from eligible expenses are going to be made, requires that written approval of the Management Committee be obtained. The purchase and renovation of the DOC property does not qualify as an eligible operating cost and would, therefore, require written approval. While the proposal relating to the DOC property was discussed with the Management Committee, no such written approval was obtained. The establishment of the DOC, to enable the purchase and renovation of the DOC property, was designed by the Corporation in an attempt to circumvent the performance contract which did not permit such activities.

- An official of DOC indicated that no public tender was called for the purchase of the initial property at a cost of $82,645. No tender was called or other quotes obtained for the acquisition of such a property, and no information was provided that would suggest the Corporation considered other methods of securing such accommodations, for example through leasing or complete construction. Therefore, the Corporation could not demonstrate whether the most appropriate space was obtained at the best price.

- An official of DOC indicated that no public tenders were called for any of the renovation work estimated in March 2001 to cost $519,500. Of particular note was that no public tender was called for the supply of building materials for the renovation and officials could not demonstrate on what basis the building materials supplier was chosen or whether similar financing arrangements could have been obtained from other suppliers. This was the most significant contract related to the renovation, with an anticipated $325,000 in building materials to be supplied.

- While there was evidence in Corporation records that the DOC did obtain quotes for some other aspects of the renovation work, Corporation staff could not demonstrate whether quotes were obtained for all goods and services acquired and on what basis received quotes were requested, reviewed and awarded.

- During the initial stages of the renovation, the DOC Board of Directors managed the project. At a DOC Executive Committee meeting held in May 2001, the Board's Chair brought to the attention of the Committee the need for a Project Manager. Corporation staff could not demonstrate on what basis the Project Manager was chosen. Fees for the Project Manager of $4,500 were paid by the Corporation rather than the DOC.

- Expenditures totalling $46,050 were incurred by the Corporation on behalf of the DOC. These expenditures included telephone costs of $5,150, the project manager's fees of $4,500, the $22,645 portion of the property purchase after bank mortgage financing, and an amount of $13,755 referenced as a transfer of earnings from the Corporation to the DOC. Aside from these direct payments, other costs were incurred by the Corporation including time spent by the office manager on record keeping for the DOC.

- The Corporation paid $22,645 "In Trust" to a law firm for the portion of the property purchase price after bank mortgage financing. These funds, with the exception of $955 for legal fees, were subsequently released on closing of the property purchase. A member of the DOC's Board of Directors was a partner in this law firm. Legal fees of $955 incurred by the Corporation was for legal work conducted by the Board member relating to the purchase of the DOC property and related mortgage. This Board member was also the vice-president of the Corporation. Corporation staff could not demonstrate on what basis the law firm was chosen.

- In October 2001, the Corporation paid the DOC $14,000 for prepaid office rent for a full year to 31 August 2002. No rental agreement or other documentation could be provided to support the basis for the amount of rent or any other rental conditions.

- In August 2002, a report was provided to the Corporation by a consultant who had been engaged to complete an organizational review of the Corporation. The report stated that "*Most respondents* (based on workshops with stakeholders) *felt that there is a lack of clear focus and direction from the Board itself.... the Board has focused too much attention and energy on one issue - the DO Centre in Clarenville.*" It was further indicated that "*There is a general perception that this project and its problems have dominated the energies of the Board at the expense of other responsibilities.*" Corporation officials indicated that proposals were not called for the selection of this consultant as they were recommended by ACOA.

- An official of DOC indicated that the estimated rental income of $80,000 from the building did not materialize. Aside from occasional rental of the Board Room and of space for Elections Canada, only two tenants occupied space at the DOC building. Payments for one of the tenants totalled $14,000 for rent for a one year period, with payments for the other tenant totalling $9,000 for a similar one year period. Officials indicated that a major problem with respect to renting the space was that the DOC had not been able to obtain occupancy permits as the elevator had not been installed and therefore the building was not wheelchair accessible. It was further indicated that the rentals did take place even though the required occupancy permits were not obtained.

At the time of our review, renovations on the building had not been completed, the lone remaining IT sector tenant which had occupied some of the space had left, all former DOC Board Directors except the former President of the Corporation had resigned, numerous suppliers had yet to be paid for goods and services provided, and both the bank mortgage and the second mortgage with the building materials supplier were in payment default. The total amount owed to all creditors at the time of our review was $740,824, which included balances and related interest/service charges of: $51,519 relating to the bank mortgage; $449,416 relating to the second mortgage with the building materials supplier; and $239,889 relating to other creditors.

An official of DOC indicated that they were in the process of trying to sell the building and that one option being actively pursued is selling the building to the Department of Justice for development as a court facility. The DOC anticipates the selling price to be approximately $600,000, which will then be used in an attempt to settle its outstanding liabilities.

2. Other Compliance Issues

Other instances where the requirements of the performance contract were not being complied with included:

- The performance contract states that gifts and donations are ineligible costs unless authorized in writing by the CEDA/SRDA Management Committee. In December 2001, the Corporation spent $823 on a Christmas dinner and social, held for Corporation Board members, staff, and invited guests, following a Board meeting. Expenses included liquor costing $162.

  These were not direct operating expenditures as defined in the performance contract and therefore would have required specific approval from the Management Committee. No such approval was requested or obtained.

- The funding agreement between the Province and the Corporation which expired in August 2002 required the Corporation to repay any unexpended operational funds promptly and in any event within 30 days of written notice by the Management Committee. The Corporation had not remitted any of its unexpended operational funds and furthermore, the Corporation had not received written notification requesting that the amounts be repaid.

- The performance contract requires that regular progress reports be provided to the Management Committee. These progress reports are to include a financial review and are the basis for advancing approved funding. Although the financial review submitted to the Management Committee as a basis for the renewal of funding for the year ended 31 August 2002 did not cover July and August 2001, funding was approved and disbursed in September 2001.

2.25 Discovery Regional Development Board Inc.

Controls and Expenditures

We reviewed the Corporation's purchasing practices to determine if they were adequate. The Corporation has only two staff in the administration area which provides a challenge in the establishment of segregation of duties and controls over expenditures. However, given the limited number of staff, it is even more important that the Corporation be vigilant and have a system in place to maximize controls which are available.

Our review identified numerous instances where controls over expenditures were not in place, were inadequate or were disregarded. For example:

- The Corporation does not have documented policies and procedures in relation to purchasing activities or hiring of consultants. The presence of such policies and procedures would provide guidance related to purchase order preparation, expenditure approvals, accounting controls, payment verification, and monthly supplier reconciliations.

- Although not documented as being Board policy, Corporation staff indicated that the Corporation follows the *Public Tender Act* in acquiring goods and services. The *Act* requires tenders to be invited where the cost of goods and services is more than $10,000. The *Act* also requires three quotes to be obtained for purchases of goods and services costing $10,000 or less.

  Aside from expenditures related to the purchase and renovation of a property through the Discovery Opportunity Centre Inc., the Corporation had very few expenditures in excess of $10,000. Our review of purchases of goods and services costing less than $10,000 indicated the following:

  - The Corporation purchased a desk for the Executive Director's office costing $3,481. Corporation officials advised that no quotes were obtained for this purchase and could not provide any information to support whether the best price had been obtained. It was also indicated that this significant purchase was made without the knowledge and approval of the Board. This was supported by our review of Board minutes.

Executive Director's Desk

- The Corporation also purchased 2 used desks and 9 used filing cabinets from a surplus and salvage company costing $730. Corporation officials advised that no quotes were obtained for this purchase and could not provide any information to support whether the best price had been obtained. Corporation staff indicated that the desks and cabinets were of very poor quality.

Furniture from surplus and salvage company

- Corporation staff indicated that the Corporation's financial statements for the year ended 31 August 1998 were prepared by a company which employed a member of the Corporation's Board of Directors, and that a significant portion of the work was conducted by this individual. Corporation staff could not demonstrate on what basis the company was hired or whether any potential conflict of interest was addressed.

  Our review of the financial statements prepared by this company indicated that no balance sheet was provided and also identified several errors and deviations from the normal information provided in general purpose financial statements.

- There is no documented approval for the acquisition of goods and services through the use of purchase orders or other means. As well, invoice approval was inadequate in that the Board did not make use of a procedure stamp which would evidence such procedures as ensuring receipt of goods, invoice additions checked, appropriate account to be charged, and payment approval.

- Although the office manager performed all accounting functions, there was no indication that the office manager's work was reviewed or that reports such as payroll journals, bank reconciliations, general journals and general ledgers were independently reviewed. This individual has signing authority on the Corporation's bank account and at times has also performed some of the duties of the Board's Secretary and Treasurer. As well, while the office manager handles money on behalf of the Corporation, the individual was not bonded as was directed by the Board.

- We were informed that while, as a matter of practice, prior approval is obtained from the Board for significant purchases, there was no threshold amount or specifics provided on which purchases would be considered as significant. In many cases there was no documented evidence of prior Board approval. Controls would be strengthened if a threshold amount or specifics were provided, and if all required approvals were in writing. While some Board minutes indicated "*invoices approved for payment*", there were no listings of the approved invoices in the minutes and no support to evidence approval was obtained from the Board prior to the purchase being made. Corporation staff indicated that these approvals are most often given verbally.

2.25 Discovery Regional Development Board Inc.

- There were a number of issues relating to travel claims as follows:
    - The Corporation's travel policies do not provide guidance for staff in several areas. For example, no guidance is provided on the time or distance away from head office required for meal reimbursement, the frequency or length of personal telephone calls, the use of rented vehicles, and travel advances.
    - We identified two duplicate claims made by Board members. In one instance, the Corporation's former President submitted two separate claims for personal vehicle mileage for $75. In the other instance, the Corporation's former Treasurer submitted two separate claims relating to meals for $36. These overpayments were not detected by the Corporation and no recovery has been made.
    - There was one instance where the former Executive Director submitted two separate travel claims which indicated travel on the same dates and times to two different locations. The total of both claims was $126.
    - Travel claims did not always include the date of travel or the time of departure and return. Without this information it was difficult to determine if the travel expenditures claimed were legitimate. In some cases where the time of departure or return were provided, the times provided did not support the amounts claimed for meals.
    - In addition to the above, our review of travel expenditures indicated that in July 2002, the Board was notified by the Atlantic Canada Opportunities Agency (ACOA) of irregularities in travel claims that had been identified during an ACOA review of the Corporation's operating costs. In a letter to the Corporation's former President from an ACOA official, dated 12 July 2002, it was indicated that there were concerns relating to directors' travel claims and reference to the fact that the ACOA review also took into consideration the provision of federal funding to another named ACOA community development partner where there were overlapping memberships on the boards of directors. While the letter did not detail the particular irregularities, Corporation staff informed us that the two Board members in question were found to be

submitting travel claims under both boards for the same travel.

In an August 2002 report to Corporation Board members, the former President outlined the results of a meeting with the ACOA official and the Chair of the other named community development partner. The report referred to concerns ACOA had regarding travel claims by two board members who had seats on both boards. It was reported that the review covered the past two years and that 27 irregularities had been identified. It was also reported that ACOA was requesting that the irregularities cease immediately and that the Board take action to correct the matter. In September 2002, the Board decided to suspend the two Board members indefinitely from the Board until ACOA or the two Board members could satisfactorily inform the Board that the matter had been resolved.

We were informed by Corporation officials that no further action was taken in relation to this matter and that no monies were recovered from the two Board members.

In addition, we were advised by an official of the Department of Industry, Trade and Rural Development that, on one occasion, one of the two Board members submitted a travel claim for personal vehicle mileage to attend a Board meeting where the Board member travelled with another Board member. It was further disclosed that the Board member in question did not own a vehicle. Travel claims submitted by this Board member over a 46-month period, during appointment to the Board, totalled $8,258, of which $4,433 was for personal vehicle mileage.

- The Corporation spent a total of approximately $5,800 on expenses relating to cellular telephones from 1 September 2001 to 31 March 2003. During our review, we performed an analysis of these expenses. Our review in this area disclosed the following:

    - Although the former Executive Director's employment was terminated on 8 February 2002, the Corporation did not discontinue access to the cellular phone until June 2002. During this period, the Corporation paid a total of $694 in cellular phone charges for this individual.

- Monthly fees totalling $308 were paid for a cellular phone which was not used for a period of four months. Corporation staff could not demonstrate whether any analysis was completed of the continuing need for the cellular phone service versus the cost of maintaining the service.

Project Administration

The Corporation hires staff as required to head initiatives it has identified to forward its strategic plan. Such initiatives include: a Career Information Resource Centre, a Community Access Program, fisheries and agriculture development programs, and various information technology development initiatives.

Our review indicated that most project expenses consisted of salaries and related travel and administration expenses, and that with the exception of the Career Information Resource Centre project which was administered by Human Resources Development Canada, none of the projects involved significant capital expenditures.

As indicated elsewhere in this report, our review indicated that there was insufficient information provided on initiatives and projects to enable the Board to monitor how resources were utilized in meeting stated objectives contained in work plans and the Strategic Economic Plan. As well, there was no annual evaluation of the various initiatives and projects which could be used by the Board or Management Committee to determine whether the initiatives or projects achieved the intended results and contributed to planned objectives.

Human Resources

The Corporation currently has two employees who work in the administration area, an Executive Director and an Office Manager. The salaries of these two employees are paid through the administration account. The remaining employees are hired and assigned to various projects as needed. The salaries for these employees are charged to the various projects.

Employee salaries and benefits are the largest expenditure items of the Corporation. For example, for the year ended 31 August 2001, salaries for administrative employees was $103,832 or 57% of total administrative expenditures while salaries for employees assigned to various projects was $347,695 or 59% of total project funds.

2.25 Discovery Regional Development Board Inc.

Our review of the Corporation's human resource practices indicated the following:

- Staff of the Corporation informed us that new positions are publicly advertised and that candidates are selected and interviewed by a committee of three individuals. However, no evidence could be provided, such as competition files or personnel files, to enable us to review for compliance with this process. Corporation staff indicated they have not been able to locate these files. Given the absence of personnel files, we were also unable to determine on what basis people were hired and whether salaries and benefits they received were in compliance with any employment contracts which may have been in place.

- There are no attendance records kept for staff to keep track of leave usage and accumulated balances. Corporation staff indicated they are responsible for monitoring their own attendance.

- Records of overtime and time taken in lieu of overtime are also maintained individually by each staff member, and there is no documented approval to work overtime.

- The Corporation's Policy and Procedures Manual requires that staff performance appraisals be completed. While personnel files could not be located to determine compliance with this requirement, Corporation staff indicated that some appraisals have been conducted in the past.

- In lieu of a Corporation administered health and life insurance benefit program, the Corporation's stated policy is that employees are to be paid a maximum of 50% of the costs of private health and life insurance. Our review indicated that instead, the Corporation paid a flat rate of $110 each month to employees and that no proof of insurance was requested. Corporation staff could not demonstrate why these flat rate payments were being made or provide the rationale for the $110 rate. Also, no taxable benefit was included on the employee's Canada Customs and Revenue Agency (CCRA) Statement of Remuneration Paid relating to such payments.

- The Corporation's payroll remittance for January 2002 was filed late with the CCRA, which resulted in the Corporation receiving a warning. No interest or penalties were incurred in this instance; however, at the time of our review, the remittance for December 2002 had not been forwarded.

- In October 1999, a former employee of the Corporation filed two separate complaints against the Board with the Human Rights Commission. The first complaint, alleging discrimination, sexual harassment and sexual solicitation, was settled in May 2000 through mutual agreement between the Board and the former employee.

  In November 2000, the individual's employment with the Corporation was terminated. The reason given for the termination was budgetary. The Corporation provided the employee with 12 weeks salary totalling $6,577, which was well in excess of the required 2 weeks. In December 2000, the complaint was re-opened and an additional complaint was filed alleging retaliation for filing the initial complaint. In December 2001, the Human Rights Commission referred this matter to a board of inquiry. Corporation officials indicated that both parties agreed to a settlement of $7,500 which was paid in April 2003.

  The Corporation hired a law firm to represent the Board's interests in these matters. Corporation staff indicated there was no call for proposals for this legal work and could not demonstrate whether the decision was approved by the Board. It was also indicated that the legal fees were not covered under the Corporation's Directors' and Officers' liability insurance but that the Corporation was advised that legal fees would only amount to a few thousand dollars. Legal fees billed to the Corporation at the time of our review amounted to $28,106. Subsequent to our review, the Corporation negotiated a reduction in these legal fees to $20,000 and the amount was paid in May 2003.

  In addition to legal costs incurred by the Corporation in relation to these complaints, the Corporation also incurred legal fees on behalf of another employee who was personally named in the complaints. We could not determine the extent to which legal fees incurred related to this other employee, as invoices supporting the legal costs paid by the Corporation did not distinguish time spent on the Corporation's defence from time spent on the employee's defence. In addition, three travel claims totalling $695 were submitted by this employee for travel to St. John's to attend meetings at the law firm. Again, it is not determinable whether these claims were incurred in relation to the Corporation's defence, the employee's defence, or both.

- Corporation officials indicated that in October 2002, another former employee consulted a lawyer relating to an allegation of wrongful dismissal. This issue had not been resolved at the time of our review.

Capital Assets

As at 31 August 2002, the Corporation's accounting records reflected a total of $165,181 in capital assets. These capital assets included those used for administration as well as for projects.

Our review indicated that the Corporation is not adequately controlling its capital assets. The following issues were identified:

- There is no capital asset ledger in place and no mechanism to identify the assets held by the Corporation. Corporation officials provided a listing of the Corporation's assets which had been prepared in 2002; however, the listing was inadequate in that it did not include asset identifiers such as serial numbers, did not provide cost information related to the assets, and did not indicate whether the assets were traced to purchase invoices.

  Given the lack of a Corporation capital asset ledger or asset listing, it was not possible to complete a physical count to compare against such records. A physical count was performed and compared to the external auditor's working paper files; however, the count could not be performed on a specific identification basis as the working papers did not always provide details such as serial numbers or model numbers. As a result, for computer equipment in particular, we could only compare the number physically counted to the number listed for reasonableness. No detail was provided on assets held prior to September 1998.

- The Corporation's general ledger reports as at 31 August 2002 were inaccurate as they included capital assets which had been returned to the funding partner during the year.

- The Corporation has not established operational policies and procedures governing the acquisition, movement, disposal, identification and recording of capital assets. Of particular concern is the lack of adequate safeguards in place to ensure the physical security of the assets held by the Corporation. Several assets were in rooms which were used by another tenant of the building, with other assets in publicly accessible rooms with doors which cannot be locked.

- The Corporation is not properly controlling its moveable assets that are on loan to staff and to the public. The Corporation does not record the loan of such assets to ensure they are returned and to determine responsibility for any damage to loaned assets. For example, while Corporation staff indicated that one computer and one computer projector were on loan to the public and that one computer was at a staff person's home, there was no record maintained of who had the equipment.

- At the time of our review, there was no contents insurance in place to protect the assets of the Corporation.

Recommendations

The Corporation should:

- *develop a new Strategic Economic Plan to replace the original Plan which expired in 2002;*

- *provide the Board with information on projects at its regular meetings to monitor how resources were utilized in meeting stated objectives, and prepare an annual evaluation of initiatives and projects to determine what results were achieved;*

- *comply with the requirements of its performance contract and the* Corporations Act*;*

- *comply with its indicated policy of issuing public tenders for expenditures in excess of $10,000 and obtaining quotes for purchases $10,000 or less;*

- *ensure that adequate documentation exists to support payment decisions and that only appropriate payments are made;*

- *ensure that documentation exists to support its human resource activities; and*

- *have a complete and accurate record of its capital assets.*

2.25 Discovery Regional Development Board Inc.

Corporation's Response

Discovery Regional Development Board recognized some of the concerns expressed in this report before this document was written. During the 2002 operating year the board decided to hire an outside consultant to perform a review of the internal management practices that were in place, to determine how effective they were and if they were being adhered to. The board was aware that it was time to do a review and implement any changes that were necessary. Many concerns that were identified are included in the recommendations of this report, these points have already been addressed.

There are seven recommendations:

1. *Develop a new Strategic Economic Plan: This plan expired at the end of 2002. It was to be a significant piece of work during the last year, as identified in the work plan. However because of resources issues this was not completed. It will be completed this winter, 2004. The board is aware of the importance of the SEP.*

2. *Reporting on Initiatives and monitoring progress: Sector facilitators and the Executive Director are required to prepare monthly reports on the activity that they are involved with and their progress during the month. Semi-annual and annual reports have always been a part of the board's policy. Funding partners also receive regular progress reports.*

3. *Comply with requirements of contract: Through a management committee consisting of the board and government partners the requirements of the contract are regularly monitored. The board understands its role and the responsibilities that it has.*

4. *Public Tenders, Obtaining quotes: These practices have been in place for several months.*

5. *Adequate documentation to support payment decisions: All payment decisions are now made by the finance committee and passed by the board at the monthly board meeting. Payments are made monthly, unless something has to be taken care of in a more timely manner.*

6. *Documentation to support Human Resources activity: All human resource activity is now systematically dealt with. The Human Resources committee is responsible for hiring and sector experts are often asked for advice on human resource requirements.*

7. *Accurate record of capital assets: Has been completed and regularly updated.*

While these recommendations have been justly dealt with, there are other points arising from this report that the board feels requires some further clarification and explanation.

The board never felt it violated its contract in the purchase of the building that became known as the Discovery Opportunity Center. Money that was used to purchase this property was surplus money that was accumulated from various contracts, HST rebates, etc. It was not direct operating core money. The board did not actually purchase the building, but rather a separate incorporated company, the Discovery Opportunity Center was the buyer. At no time did that board feel that a breach of contract was carried out. The Corporation was established to move forward the Information Technology sector, not to circumvent the performance contract.

The board feels that the amount of focus on the DOC in this report is irrelevant. This is a separate entity that the board helped generate, just as it has assisted in many other initiatives in the zone. However other initiatives are not mentioned, nor should they be.

Practices such as applying for HST rebates annually is a policy that many boards and associations follow. Applying for rebates on a more frequent basis adds to the amount of paperwork and administrative functions that the board feels is not necessary.

The day to day management practices and procedures that are referred to in this report have been corrected. Efforts are made to ensure that items like overtime and travel are completed correctly and handled in the appropriate manner. The irregularities in travel that are identified in this report were also identified before this review commenced, management procedures that were in place by the board did identify these problems and the issues were dealt with.

Other points worth noting since this report has been completed:

- *Documented approval for goods and services is standard*
- *Travel claims are completed, submitted and paid correctly*
- *A finance committee is in place*
- *Threshold amounts on purchases are in place*
- *Overtime is documented and controlled by core staff, leave requests are filed*
- *Regular monitoring of projects and initiatives*
- *Personnel files are kept up to date, Human Resources committee in place*

All these areas have been identified and improvements made.

The current volunteer board works closely with its partners to carry out the mandate. The board has attracted new members that are committed to provide the residents of the zone with the services that a zonal board can provide. The board is more transparent in its approach and will continue to move forward and make improvements in any area that requires change. This report reflects the way it was and not the way it is. The board also has a new group of employees that are committed to carrying out their contracts to the benefit of the residents of Zone 15.

2.25 Discovery Regional Development Board Inc.

2.26 Marine and Mountain Zone Corporation

Introduction

In 1992, the Province's Strategic Economic Plan recommended the creation of economic zones which would:

- facilitate the development of economic plans by the people in each zone;
- facilitate joint initiatives by communities within the zone;
- promote the economic opportunities and strengths of each zone and region; and
- facilitate more regionalization of Government administration.

In January 1995, on the basis of recommendations from the Task Force on Community Economic Development, Cabinet approved the establishment of 19 (now 20) regional economic zones and regional economic development boards.

Initially, Government established provisional boards to determine the structure and process of establishing permanent boards. The permanent boards were established as incorporated entities with democratically elected members who are community based. The 20 regional economic zones are outlined in Figure 1.

2.26 Marine and Mountain Zone Corporation

Figure 1

Regional Economic Development Boards
31 March 2003

Economic Zone #	Regional Economic Development Board	Head Office Location
1	Inukshuk Economic Development Corporation	Makkovik
2	Hyron Regional Economic Development Corporation	Labrador City
3	Central Labrador Economic Development Board Inc.	Happy Valley - Goose Bay
4	Southeastern Aurora Development Corporation	Cartwright
5	Labrador Straits Development Corporation	Forteau
6	Nordic Economic Development Corporation	Flower's Cove
7	Red Ochre Regional Board Inc.	Parson's Pond
8	Humber Economic Development Board Inc.	Corner Brook
9	Long Range Regional Economic Development Board	Stephenville
10	Marine and Mountain Zone Corporation	Port aux Basques
11	Emerald Zone Corporation	Springdale
12	Exploits Valley Economic Development Corporation	Grand Falls - Windsor
13	Coast of Bays Corporation	St. Alban's
14	Kittiwake Economic Development Corporation	Gander
15	Discovery Regional Development Board Inc.	Clarenville
16	Schooner Regional Development Corporation	Marystown
17	Mariner Resource Opportunities Network Inc.	Carbonear
18	Avalon Gateway Regional Economic Development Inc.	Dunville
19	Capital Coast Development Alliance	St. John's
20	Irish Loop Regional Economic Development Board	Trepassey

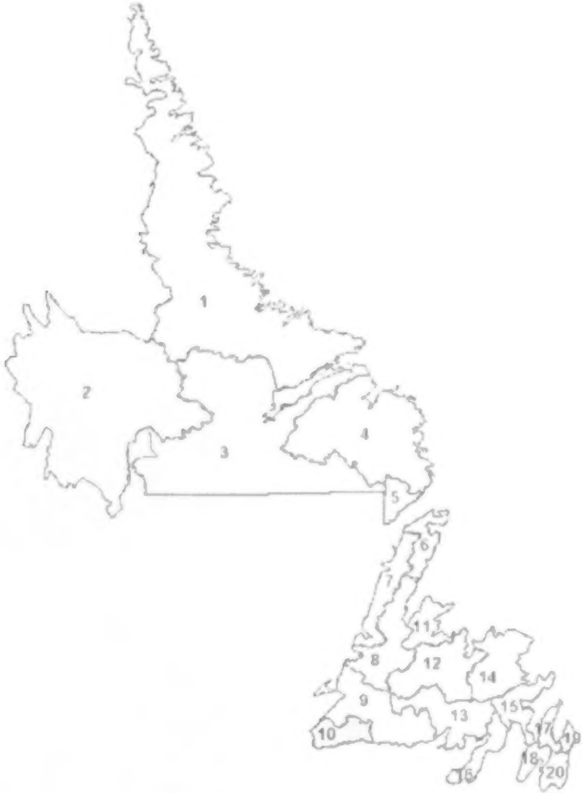
Source: Department of Industry, Trade and Rural Development

The Marine and Mountain Zone Corporation (Zone 10) covers the island's southwest coast, including 27 communities, with a combined population of 9,668 (2001), from North Branch to Grand Bruit. Figure 2 shows the area covered by the Corporation.

2.26 Marine and Mountain Zone Corporation

Figure 2

Economic Zone 10
Marine and Mountain Zone Corporation
Location and Boundaries



The Corporation is governed by an elected board of directors representing major stakeholder groups in the region. The Board is comprised of 13 representatives as follows:

- 3 members representing business;
- 4 members representing municipalities;
- 1 member representing education;
- 1 member representing transportation;
- 2 members representing development associations; and
- 2 members representing particular interest groups (women & youth)

2.26 Marine and Mountain Zone Corporation

Scope and Objectives

We completed our review of the Marine and Mountain Zone Corporation in May 2003. Our review covered the period from 1996 to March 2003. The objectives of our review were to:

- review the financial position and operating results of the Corporation;
- assess whether the management practices and control systems at the Corporation are adequate to provide information to management and the Board of Directors for decision making and control of the Corporation's revenues and expenditures;
- assess the Corporation's compliance with the terms of its performance contract, related agreements and relevant authorities;
- determine whether controls over the purchasing of goods and services are adequate and that such expenditures are made in accordance with the Corporation's policies and procedures; and
- assess whether the Corporation's capital assets are adequately controlled and accounted for.

Conclusions

In March 2003, the Public Accounts Committee made a resolution that "*... the Auditor General be asked to consider performing an audit of the Regional Economic Development Boards in the Province ...*". Further to this resolution, I performed an audit of three zonal boards during the year. As requested by the Public Accounts Committee, the results of my work are included in my Annual Report to the House of Assembly on Reviews of Departments and Crown Agencies. This report item outlines my findings on one of the three zonal boards reviewed - the Marine and Mountain Zone Corporation.

The Marine and Mountain Zone Corporation was incorporated in 1996. The Corporation, along with 19 other regional economic development boards, was established on the basis of recommendations made to Cabinet in 1995 by the Task Force on Community Economic Development. The Corporation covers the island's southwest coast, including 27 communities, with a combined population of 9,668 (2001).

2.26 Marine and Mountain Zone Corporation

The Corporation has received approximately $1 million in funding from the Federal (70% - $700,000) and Provincial (30% - $300,000) governments relating to administration expenses since its inception in 1996. The Corporation also received approximately $1.4 million for 2000, 2001 and 2002 to fund 11 initiatives in accordance with the Corporation's strategic economic plan. Of this $1.4 million, $1.2 million was provided by the Federal government, $75,000 was provided by the Provincial government and the remaining $89,000 was provided by the private sector.

Our review indicated that the Corporation has made unauthorized payments, is not complying with its performance contract with the Provincial government and with other authorities, and requires improvements in controls in several areas. Specifically:

- **Unauthorized Payments.** One item of particular concern resulting from our review was the fact that unauthorized payments totalling $13,339 were made directly to, or on behalf of, the Corporation's former Executive Assistant. These unauthorized payments were made over a period from 1996 to 1999, and while $8,213 was recovered from the employee, the balance of $5,126 has not been recovered.

- **Compliance with Authorities.** The Corporation has not repaid any of its unexpended operational funds totalling approximately $38,000 as it is required to do under the performance contract and has not provided information required to be submitted to the Management Committee on investment, number and type of businesses, and economic activity. As well, the Corporation has been spending monies on gifts which are not permitted under the performance contract.

  Also, the Board is not always complying with the requirements of the *Public Tender Act* and *Regulations* which it has adopted as policy.

- **Planning, Monitoring and Reporting.** No new long-term Strategic Economic Plan has been developed to replace the original plan which expired in 2002. For 2002-03, the Corporation only established strategic initiatives in its annual Work Plan. Without a long-term strategic plan to provide a focus, it is difficult for the Corporation to demonstrate how annual initiatives will contribute to any long-term objectives.

2.26 Marine and Mountain Zone Corporation

Furthermore, there is no annual evaluation undertaken by Corporation officials of the various initiatives and projects which could be used by the Board to determine whether the initiatives or projects achieved the intended results and contributed to planned objectives.

- **Controls and Expenditures.** Travel claims do not always include all of the required information such as time of departure and return. We also identified one duplicate payment, and a claim that was paid without all of the required supporting documentation.

  In addition, although Corporation policy requires that all cheques be signed by two individuals, in August 2002 the Corporation authorized the bank to process 20 cheques totalling $12,509 with only one signature because there was no second signing officer available. In this case, four letters were prepared for the release of the 20 cheques and each letter had the signature of the Chairperson affixed at the bottom. Our review indicated that the letters were not actually signed by the Chairperson; instead, the signature was placed on the letters from another Corporation document, photocopied and then faxed to the bank. These incidents represent a serious breach of control and may also be illegal.

- **Project Administration.** For one project, the Corporation paid fees which were higher than the contract and, although additions and changes to the contracted work were made, there was no documentation or prior approval of the additional costs. For another project we found that, although an entity was not complying with the agreement and was not providing the services required, the Corporation continued to pay for services which it had not received.

- **Human Resources.** Employee attendance records are not maintained and employee pay and benefits are communicated verbally and not in writing. As well, the required annual performance evaluations are not documented. Also, deductions are not always taken from payroll as required and the Canada Customs and Revenue Agency has provided the Corporation with notice of the matter.

- **Capital Assets.** Not all assets are identified and tagged and stickers used to tag some computer equipment have fallen off. As well, the database maintained by the Corporation does not include all assets and does not provide an asset's specific location. Also, forms used to track assets on loan are not always being completed.

Findings and Recommendations

Financial Position and Operating Results

Government identified two phases to the implementation of the regional economic development boards and provided funding on that basis. Phase 1 included the development of a strategic plan for each zone while Phase 2 included the implementation of the strategic plans. The operational funding for the regional economic development boards was provided through the Comprehensive Economic Development Agreement (CEDA), (formerly Strategic Regional Diversification Agreement), and administered by the Department of Industry, Trade and Rural Development. Subsequent to the conclusion of the CEDA agreement in 2002, the operational funding was provided by the Province and the Atlantic Canada Opportunities Agency (ACOA) through separate agreements with the Corporation.

Our review of the Corporation's financial position included an assessment of the annual operating results and the year end assets and liabilities. The financial position of the Corporation, represented by its assets and liabilities, as at 30 September each year is presented in Figure 3.

2.26 Marine and Mountain Zone Corporation

Figure 3

Marine and Mountain Zone Corporation
Financial Position
30 September

	1996	1997	1998	1999	2000	2001	2002
Cash	Not Available				$ 43,912	$140,666	$ 95,568
Accounts receivable					39,995	31,671	13,877
Prepaid expenses					752	825	973
Capital assets					234,405	343,219	357,485
					$319,064	$516,381	$467,903
Accounts payable	Not Available				$ 11,450	$ 25,686	$ 7,416
Deferred revenue							11,168
	Not Available				11,450	25,686	18,584
Investment in capital assets					234,405	343,219	357,485
Surplus					73,209	147,476	91,834
					$319,064	$516,381	$467,903

Source: Audited financial statements

As Figure 3 shows, as at 30 September 2002, the Corporation has a net surplus of $92,000 and does not have any long-term debt.

The Corporation's annual operating results since its inception in 1996 are outlined in Figure 4. The annual operating results reflect the administration revenues and expenses while the net project revenue (expenses) reflect the total amount received for project funding less the amount provided by the Corporation for project funding.

2.26 Marine and Mountain Zone Corporation

Figure 4

Marine and Mountain Zone Corporation
Operating Results
Periods ending

Description	8 Months 31 March	18 Months 30 Sept.	Years ending 30 September					Total
	1996	1997	1998	1999	2000	2001	2002	
ADMINISTRATION								
Revenue								
CEDA/SRDA	$21,470	$160,000	$165,000	$165,000	$167,500	$167,500	$167,500	$1,013,970
Fees				10,000	15,000	25,000		50,000
Other	243	1,881	2,414	2,198	6,366	26,865	1,624	41,591
	21,713	161,881	167,414	177,198	188,866	219,365	169,124	1,105,561
Expenses								
Salaries	11,830	84,028	91,238	95,334	85,232	81,322	82,311	531,295
Contribution							50,000	50,000
Other	9,723	76,470	61,804	51,227	82,780	78,677	91,284	451,965
	21,553	160,498	153,042	146,561	168,012	159,999	223,595	1,033,260
Net Administration	160	1,383	14,372	30,637	20,854	59,366	(54,471)	72,301
PROJECTS								
Total Revenues	Not Available				572,251	450,309	334,974	1,357,534
Total Expenses	Not Available				566,448	435,408	336,145	1,338,001
Net Projects	0	0	0	0	5,803	14,901	(1,171)	19,533
SURPLUS (DEFICIT)								
Total Surplus (deficit)	160	1,383	14,372	30,637	26,657	74,267	(55,642)	91,834
Accumulated Surplus	$160	$1,543	$15,915	$46,552	$73,209	$147,476	$91,834	$91,834

Source: Unaudited financial reports for 1996 - 1998 and audited financial statements for 1999 - 2002

2.26 Marine and Mountain Zone Corporation

As Figure 4 shows, the Corporation has received approximately $1 million in funding from the Federal (70% - $700,000) and Provincial (30% - $300,000) governments relating to administration expenses since its inception in 1996. The Figure also shows that the Corporation received a total of approximately $1.4 million for 2000, 2001and 2002 to fund 11 initiatives in accordance with the Corporation's strategic economic plan. Information on the 11 initiatives is provided in Appendix A. Of this $1.4 million, $1.2 million was provided by the Federal government, $75,000 was provided by the Provincial government and the remaining $89,000 was provided by the private sector.

As Figure 4 shows, the Corporation, with the exception of 2002 when it made a special one-time contribution of $50,000 representing a refund of administration fees for managing the industrial mall, has had an annual operating surplus in its administration operations since its inception in 1996. Also, the Corporation has distributed the majority of its project funding and had approximately $20,000 remaining as at 30 September 2002.

Our review of the Corporation's financial position and operating results identified the following issues:

- Although the Board is provided with information on actual operating results and variances from its budget, the reasons for the variances are not documented.

- The Harmonized Sales Tax (HST) rebates were not always being claimed correctly by the Corporation. For example, the Corporation claimed the HST rebate of $286 on insurance in March 2003; however, Provincial insurance tax is not HST. Also the Corporation is not claiming HST on all eligible travel allowances such as meals and mileage. HST rebates of approximately $1,700 were not claimed on such items as mileage, meals, private accommodations, and incidental expenses from October 2001 to March 2003.

Planning, Monitoring and Reporting

The Corporation's mandate is to facilitate the development of economic plans for the zone, facilitate joint initiatives by communities within the zone, promote the economic opportunities and strengths of the zone and region; and facilitate more regionalization of Government administration. To facilitate the achievement of this mandate, the Corporation operates through a Board of Directors elected annually to represent various stakeholders.

2.26 Marine and Mountain Zone Corporation

The Corporation has developed a five-year Strategic Economic Plan covering the period 1998 to 2002, prepares an annual Work Plan and an annual budget. To effectively monitor activities of the Corporation and to evaluate progress towards meeting the objectives contained in its Strategic Economic Plan and its annual Work Plan, the Board requires complete and timely information on how Corporation resources are utilized.

Our review of Board activities and the Corporation's planning, monitoring and reporting indicate that improvements are required. We identified the following issues:

- No new long-term Strategic Economic Plan has been developed to replace the original plan which expired in 2002. For 2002-03, the Corporation only established strategic initiatives in its annual Work Plan. Without a long-term strategic plan to provide a focus, it is difficult for the Corporation to demonstrate how annual initiatives will contribute to any long-term objectives.

- There is no annual evaluation undertaken by Corporation officials of the various initiatives and projects which could be used by the Board or Management Committee to determine whether the initiatives or projects achieved the intended results and contributed to planned objectives.

- In 2001-02, the Corporation established three standing committees: a finance committee; a human resources committee; and a policy committee. However, terms of reference for these committees were never established and no formal meetings were held. The only committee meeting and reporting regularly to the Board was the executive committee.

- Minutes of Board meetings are kept and approved at the next Board meeting; however, not all Board minutes were signed to identify them as the official board minutes. For example, Board minutes from the first meeting in May 1996 to June 2002 were not signed. Minutes for Board meetings in October and November 2002 were signed but subsequent minutes for December 2002, February 2003 and March 2003 were not signed. In addition, the executive committee minutes for 1999 were unavailable for review.

- The Corporation's bylaws require that the Board meet 12 times per year and that there be 15 Board members; however, the Board has never met 12 times per year and there are currently only 13 Board members. The Corporation has now drafted new bylaws which require the Board to meet once every two months and that there be 13 Board members.

Compliance with Performance Contract

The Corporation's administrative funding is based on a performance contract between the Federal and Provincial governments and the Corporation. Therefore, the Federal/Provincial Management Committee requires information on the Corporation's compliance with this performance contract.

When the Corporation first commenced operations in 1996, it was in Phase 1 and developing a strategic plan. On 8 January 1998, after the finalization of its strategic plan, the Corporation entered into a Phase 2 performance contract covering the period 28 September 1997 to 27 September 2002. The Corporation entered into another performance contract with the Province on 28 September 2002. The current performance contract does not have an expiry date.

These contracts include a number of requirements for the Corporation such as financial framework, monitoring, evaluation, and reporting. We identified several instances where the requirements of the performance contract were not being complied with as follows:

- The performance contract requires that annual financial statements be provided to the Management Committee. There were no financial statements provided for 1996, 1997 and 1998; instead, only information on receipts and disbursements was provided.

  For 1999, financial statements relating only to the administration fund were provided. Furthermore, although the 1999 financial statements were due 90 days after year end (i.e. 31 December 1999) they were not provided until after January 2001.

  Financial statements for 2000 and 2001 were provided; however, they were not provided until approximately one month after the 90 day time-frame. The 2002 financial statements were provided as required.

2.26 Marine and Mountain Zone Corporation

- The funding agreement between the Province and the Corporation which expired 27 September 2002 required the Corporation to repay any unexpended operational funds promptly and in any event within 30 days of written notice by the Management Committee. The Corporation has not remitted any of its unexpended operational funds totalling approximately $38,000 and furthermore, the Corporation has not received written notification requesting that the amounts be repaid.

  The new contract signed on 28 September 2002 requires the Corporation to repay any unexpended operational funds within 30 days of written notification by the Minister.

- The performance contract for the period 28 September 1997 to 27 September 2002, the current performance contract of 28 September 2002, and the Corporation's Policy Manual all indicate that the Corporation should comply with Provincial government travel rates. However, the Corporation is using the higher Federal government travel rates.

- The Phase 2 contract effective 28 September 1997 included indicators such as collection and analysis of data, investment, number and type of businesses and other information. The new contract signed 28 September 2002 also required a report on economic activities including increased economic activity and new business startups. The semi-annual reports do not include information on all of the required indicators.

- Although both performance contracts specifically disallowed expenditures for gifts, from 1 October 2001 to 30 March 2003 the Corporation purchased gifts totalling $760 for retiring Board members, staff and as appreciation to other individuals for certain services.

Controls and Expenditures

We reviewed the Corporation's purchasing practices to determine if they were adequate. The Corporation has only two staff in the administration area which provides a challenge in the establishment of segregation of duties and controls over expenditures. However, given the limited number of staff, it is even more important that the Corporation be vigilant and have a system in place to maximize controls which are available.

2.26 Marine and Mountain Zone Corporation

Our review identified numerous instances where controls over expenditures were not in place, were inadequate or were disregarded. For example:

- Although the Corporation has established purchasing policies and procedures which are documented in its Policy Manual, they do not cover all aspects of the purchasing function. For example, there is no guidance related to purchase order preparation, expenditure approvals, accounting controls, payment verification, and monthly supplier reconciliations. As well, although Board policy requires staff and Board members to sign a conflict of interest declaration, two Board members had not signed the conflict of interest declaration.

- We identified unauthorized payments totalling $13,339 made directly to, or on behalf of, the Corporation's former Executive Assistant. These unauthorized payments were made over a period from 1996 to 1999 and the cheques issued were signed by two Board members. The payments totalling $13,339 resulted in salary overpayments made directly to the former Executive Assistant totalling $11,156, a payment made to a bank for $1,410 and payments for employee deductions and benefits totalling $773.

  In May 2000, the Corporation's auditors commenced a review and identified overpayments totaling in excess of $12,000 related to the Corporation's former Executive Assistant. In June 2001, $8,213 was recovered from the former Executive Assistant. Discussions with officials at the Corporation indicated that they were not aware of the additional amounts that we identified and, therefore, the balance of $5,126 has not been recovered.

- In October 1999, the Corporation paid $1,029 each for the Executive Director and the former Executive Assistant to attend a course dealing with leadership training for managers. Although Board policy requires prior approval for training, no prior Board approval for this expenditure was provided.

- Although Corporation policy requires two signatures for each cheque issued, in August 2002, the Corporation authorized the bank to process 20 cheques totalling $12,509 with only one signature because there was no second signing officer available.

There were four letters prepared for the release of the 20 cheques and each letter had the signature of the Chairperson affixed at the bottom. Our review indicated that the letters were not actually signed by the Chairperson; instead, the signature was placed on the letters from another Corporation document, photocopied and then faxed to the bank. These incidents represent a serious breach of control and may also be illegal.

- In two instances the Public Tender Act was not complied with in that tenders were not publicly opened, there were no attendance sheets and there was no evidence of when the bids were opened. Furthermore, bids received for one tender for office space were not date stamped and specifications for this tender were vague and only indicated that space was required for 11 office spaces, with no mention of square footage of each.

- The Corporation moved into its current offices in July 2002 and pays $12,000 per year for the space. Our review identified a number of issues regarding this leased space as follows:

    - The proposal from the successful bidder indicated that the Corporation could lease the entire top floor of a building for $1,000 per month. The proposal also indicated that if the Corporation provided a portion of its space to another entity, the lessor would negotiate a separate lease with that entity. Since the Corporation entered into the lease arrangement, the Chamber of Commerce and a private consulting firm have taken space on the top floor. However, the Corporation still continues to pay $1,000 per month for this reduced leased space.

    - The Corporation has not signed a lease agreement with the lessor which would outline the Corporation's and lessor's responsibilities regarding that leased space.

    - In August 2002 the Corporation entered into a written agreement with a consulting company so that the company would pay a monthly charge for fax, copier usage, and heat and light. Our review indicated that the company paid a total of $300 for heat and light for the three months ended January 2003. No other amounts were received at the time of our review in May 2003. In addition, other common costs such as janitorial and security are not reimbursed.

2.26 Marine and Mountain Zone Corporation

- The insurance coverage for the contents of the office was renewed March 2003 and the policy reported a lien on the office contents by a lending institution; however, this lien should have been removed from the insurance coverage two years ago. Also, our review indicated that the Corporation's insurance policy refers to its previous office location in the "crime section" of the policy.

- The Corporation does not have a written agreement for janitorial services provided to the Corporation. The Corporation is currently paying $80 weekly for these services.

- There were a number of issues relating to travel claims as follows:

    - Travel claims do not include the time of departure and return. Also, the purpose for travel was not always listed and entertainment expenses did not always include who was in attendance and the purpose of the meeting. Without this information it is difficult to determine if the travel expenditures claimed were legitimate.

    - One claim had a registration fee of $201 reimbursed without supporting documentation.

    - There was one duplicate claim for $261 made by a Board member. In this instance, the Strategic Social Plan Office of the Executive Council and the Corporation both reimbursed the same travel. The Corporation has indicated that this will be recovered from future travel claims.

    - Our review of travel identified four instances where employees and Board members attended Provincial functions and were reimbursed at Provincial rates in accordance with the performance contract. However, the Corporation reimbursed these people an additional amount representing the difference between the higher Federal travel rates instead of the required Provincial travel rates. This cost the Corporation an additional $635. Also, incidental expenses of $11.50 were sometimes claimed per day instead of per night as per policy.

2.26 Marine and Mountain Zone Corporation

Project Administration

The Corporation has hired 6 permanent staff to head initiatives that it has identified to forward its strategic plan. The initiatives currently in process are: Resource Project, Information Technology Centre, Marine Interactive Satellite Technology Project, Career Information Resource Centre, Community Access Program Project, and the Piping Plover Project.

Controls over project administration require improvement. Our review of the projects indicated the following issues:

1. Piping Plover Project

In October 2002 the Corporation signed a contract for $2,042 plus HST with an IT consulting firm to develop a website for the Piping Plover Initiative. A second contract for $2,110 plus HST for the development of a Piping Plover CD was signed in December 2002 with the same company. A review of these contracts indicated the following:

- The Corporation did not request quotes for this work.

- Not all services required by both contracts have been provided. Although the Corporation paid web hosting fees of $180 for one year in advance that included maintaining three email addresses and paid $420 for a video section to the website, these services were not received.

  Although the contract requires three to five videos, only two were provided. Furthermore, only 29 images with no click-through of the required 30-35 images with click-through for larger images were provided.

- Fees were not in accordance with the contract. Although the contract had a one-time set-up fee of $35, the one-time set-up fee paid was $45. The original agreement quoted $350 for the re-engineering and $70 for the monitoring of the web site (total of $420). However, the Corporation paid $590 for "re-engineering of the Plover web site with monitoring".

- Additions and changes to the contracted work were made; however, there is no documentation or prior approval of the additional costs and no new agreement was drawn up. For example, the invoice for the development of the prototype CD was $500 more than the agreement because of additional services not included in the original contract. These services included the addition of a credit section, development of the CD label, and modification of the website material for addition to the CD.

2. Marine Interactive Satellite Technology Project

In February 2002, the Corporation entered into an agreement with the Chamber of Commerce regarding the management of a particular initiative (Marine Interactive Satellite Technology project: Tele-tourism Component). The agreement indicates that the Chamber is responsible for contacting clients, maintaining a client database and maintaining the bank account. The Chamber would be paid 30% of all revenues generated from this project, to a maximum of $9,000.

However, our review indicated that the Chamber is not complying with the agreement. For example, the Corporation maintained the bank account since October 2002 and also maintained the database. Although the Chamber is not complying with the agreement, in February 2003 the Corporation renewed the agreement which expired in December 2002 and continues to pay for services not provided by the Chamber. For example, the Corporation paid the Chamber a total of approximately $2,300 for January, February and March 2003.

3. Resource Project

The Corporation has also engaged the same IT consulting firm to manage the Corporation's two web sites, one relates to the Resource Project while the other relates to the Corporation's main web site. The contract was for $345 per month for one year starting 1 October 2002. Our review indicated that the Corporation did not call proposals for this work. Furthermore, the two web sites are still not current; for example, the current Executive Director is not referenced on the web site.

In addition, the Corporation is receiving Federal Government funding relating to one of its staff whose responsibilities include maintaining the Corporation's two web sites.

Human Resources

The Corporation has eight full time employees. Two employees, an Executive Director and an Executive Assistant work in the administration area. The salaries of these two employees are paid through the administration account. The remaining six employees: three economic development officers; an IT person; and two employees assigned to the MIST project, are assigned to various projects. The salaries for these six employees are charged to various projects. The Corporation also hires summer students and other temporary employees for various terms on a project basis.

Employee salaries and benefits are the largest expenditure items of the Corporation. For example, for the year ended 30 September 2002, total salaries for the two administrative employees was $82,000 or 47% of the administrative expenditures while total salaries for the six full-time employees and various temporary employees working on projects was $242,000 or 72% of total project funds.

Our review of the Corporation's human resource practices indicated that they require improvement. Issues identified are as follows:

- Corporation administrative staff are paid at various pay levels and receive benefits as determined by the Board. However, the level of pay and the benefits to be provided to an employee are not in writing; instead, the information is communicated verbally.
- The Corporation does not maintain employee attendance records. Although leave is approved through a leave form, no cumulative leave record is maintained. As a result, it is very difficult to determine, at any point in time, the status of employee leave.
- The Corporation is not always deducting the proper source deductions from its payroll. For example, although the Board made payments to RRSPs on behalf of staff, no standard deductions for CPP or EI were withheld and remitted to the Canada Customs and Revenue Agency. In 2002 the Canada Customs and Revenue Agency provided notice that the Corporation was required to pay $205 for deductions not remitted on $1,262 of RRSP payments in 2002. There has been no reassessment on the $10,168 in RRSP's paid by the Corporation from 1999 to 2001.
- The Corporation has a policy which requires that employees have an annual performance evaluation. Although employees indicated that annual performance evaluations were performed, they are verbal and therefore are not documented for inclusion in the employee's personal file.

Capital Assets

The Corporation has established operational policies and procedures governing the acquisition, movement, disposal, identification and recording of capital assets. As at 30 September 2002, the Corporation's audited financial statements reported $357,485 in capital assets.

2.26 Marine and Mountain Zone Corporation

Our review indicated that the Corporation is not adequately controlling its capital assets. The following issues were identified:

- Not all assets are identified and tagged. Stickers used to tag some computer equipment have fallen off.

- Although Corporation policy requires all capital assets greater than $25 be included in a database and the specific location of the asset be recorded, the database only lists capital assets costing $100 or more and does not provide the specific location of the asset. In addition, we selected 8 items at random and found that 5 were not in the database and 1 could not be verified because there was no matching serial number in the database.

- The Corporation is not properly controlling its moveable assets that are on loan to staff and to the public. The Corporation has developed a form for tracking these assets; however, the forms are not always being completed. For example, a digital camera on loan to a staff member at the time of our review did not have a form completed. The Corporation has also developed a form to be completed when an asset which has been on loan is returned in damaged condition. This form is designed to determine responsibility for any damage to the item. This form is also not always being completed.

Recommendations

The Corporation should:

- *take steps to strengthen internal controls to ensure that only appropriate and authorized payments are made;*

- *comply with the requirements of its performance contract;*

- *develop a new Strategic Economic Plan to replace the original Plan which expired in 2002;*

- *prepare an annual evaluation of initiatives and projects to determine what results were achieved;*

- *ensure that documentation exists to support its human resource activities; and*

- *improve controls over its capital assets.*

2.26 Marine and Mountain Zone Corporation

Corporation's Response

1. Take steps to strengthen internal controls to ensure only appropriate and authorized payments are made;

The Board is satisfied that it has implemented the internal controls necessary to ensure operational integrity. As part of its mandate, the Corporation employs the services of an external auditor who performs an "Audited Financial Statement" on all accounts of the Corporation. Furthermore, the Corporation receives a full financial review of its operation on a semi-annual basis by officials of the Department of Industry, Trade and Rural Development.

In addition to the foregoing checks and balances, monthly financial reports are provided to the Board of Directors and are discussed in detail at the Corporation's regular monthly meeting. Payments for all expenditures require the signature of two of the four signing officers all of whom are officers of the Corporation.

2. Comply with the requirements of the performance contract;

The Board acknowledges that financial statements were not produced for the years 1996 through 1998. However, as outlined in the previous section of this report, external "Audited Financial Statements" are now prepared annually and are prepared within the ninety (90) day time frame as outlined in the performance contract.

We also acknowledge the existence of some unexpended operational funds that have not been repaid to government. However, these funds are accounted for and both levels of government are aware of their existence. This issue has been discussed at our annual review meetings with the Management Committee. The funds are being used to further advance the aims and goals of the Corporation.

As is the case with all funds, the board practices due diligence in expending these funds.

3. Develop a new Strategic Plan to replace the original one, which expired in 2002;

The Board has developed an Integrated Work Plan that was compiled in consultation with the community and stakeholders. Staff reviews the plan monthly, quarterly our community partners review it and consultation with the community is conducted throughout the year.

The board of directors is committed to developing a new strategic plan within its fiscal year.

4. Prepare an evaluation of its initiatives and projects to determine what results were achieved;

The Corporation is required as a condition of its performance contract to submit both a semi-annual and annual report. In addition to reporting on financial matters, commentary is provided on progress made with regard to initiatives and projects.

The Newfoundland and Labrador Regional Economic Development Association (NLREDA), the newly formed provincial body which represents the twenty Regional Economic Development Boards in the province has recently undertaken a project to develop a "Monitoring and Evaluation" tool. MMZC has committed to this project, and, in fact, our Executive Director is a member of the sub-committee responsible for the initiative.

One of the goals of this committee is to assist the boards in the area of evaluation of projects and initiatives. A standardized annual report will be one of the issues that will be dealt with through this project. This process together with the board's current activity should adequately address this concern.

5. Ensure that documentation exists to support its human resource activities;

Many, if not all of the recommendations suggested by the audit team have been implemented. Furthermore, the Board has recently commenced rewriting its policy manual and all personnel matters have been addressed.

6. Improve control over its capital assets;

The Corporation has commenced to develop a database of capital assets to improve control in this area. We are satisfied that this matter will be resolved over the next few months.

The board of directors and staff are appreciative of the time in which your staff spent at our office and for the advice and guidance given. Many of the recommendations contained within your report have been or will be implemented in due course.

Appendix A

Marine and Mountain Zone Corporation
Initiative Funding
2000-2002

Initiative	2000	2001	2002	Total
Marketing	$ 78,538	$ 3,675	$	$ 82,213
Career Information Resource Centre	52,198	64,550	7,013	123,761
Satellite - Federal	317,658			317,658
- Provincial	15,000	15,000		30,000
Gateway Project	106,962			106,962
Soiree 99'	1,895			1,895
IT Centre- Federal		121,209	140,336	261,545
- Provincial		15,000		15,000
Resources		79,632	89,818	169,450
MIST - Federal		18,753	20,000	38,753
- Private		51,490	29,123	80,613
Community Access - Provincial		28,000	2,137	30,137
Guardian		26,500		26,500
Piping Plover - Federal		26,500	38,156	64,656
- Private			8,391	8,391
	$ 572,251	$ 450,309	$ 334,974	$ 1,357,534
Summary				
Federal funding	$ 557,251	$ 340,819	$ 295,323	$ 1,193,393
Provincial funding	15,000	58,000	2,137	75,137
Private funding		51,490	37,514	89,004
	$ 572,251	$ 450,309	$ 334,974	$ 1,357,534

Source: Audited financial statements

2.26 Marine and Mountain Zone Corporation

2.27 Strategic Enterprise Development Fund

Introduction

In November 1998, Government signed an agreement with Newfoundland Bonding and Composites Limited (subsequently changed to CHC Composites Inc.). CHC Composites Inc. (Composites) is a wholly owned subsidiary of CHC Helicopter Corporation (CHC Helicopter) and was established in July 1998 to provide manufacturing, repair and engineering services for aircraft components. Composites commenced operations in Gander in July 1999.

In accordance with the agreement, Government paid $9.5 million from the Strategic Enterprise Development Fund to Composites in exchange for 95,000 redeemable preference shares with a par value of $100 per share. The agreement entitles Composites to redeem, at nominal value, 9,500 preference shares for every 100 person years of employment provided by Composites during the first six years of operations.

When we first reviewed this transaction in 1999, we found that:

- Although the former Department of Development and Rural Renewal, through Enterprise Newfoundland and Labrador Corporation, was responsible for the disbursement of the funds, it had very little to do with the assessment, approval and monitoring of the project. Instead, the Department of Finance was responsible for monitoring of this investment. It was evident from our review that the project was pre-approved before the Board of Enterprise Newfoundland and Labrador Corporation or either of the departments became involved.

- The approval of this investment was not subject to the policies and procedures established for other equity investments. Thorough assessments were not performed, verification of business plan assertions was limited, and monitoring was inadequate.

Conclusion

In November 1998, Government signed an agreement with Newfoundland Bonding and Composites Limited (subsequently changed to CHC Composites Inc.) regarding Government's contribution of $9.5 million towards the construction of a facility to provide manufacturing, repair and engineering services for aircraft components in Gander. Although the agreement had a number of provisions which allowed Government to inspect the company's accounting records, and appoint a member to the Board of Directors, Government did neither.

2.27 Strategic Enterprise Development Fund

In March 2003, Cabinet authorized a payment of $1 million to offset the company's operating losses in exchange for preference shares in the company. At the same time, the Department of Industry, Trade and Rural Development and the Department of Finance were directed to pursue collection activity on a $150,000 personal guarantee from an individual, who is also the Chairman and Chief Executive Officer of CHC Helicopter Corporation, relating to a personal guarantee provided for a now defunct company.

In April 2003, the Department of Industry, Trade and Rural Development wrote the individual requesting payment in full of the $150,000 personal guarantee no later than 15 May 2003. The letter indicated that "*Failure to do so will leave the Department with no other alternative but to examine all available options, including formal legal action.*" However, although the $150,000 personal guarantee was not collected, this individual's company was provided with the $1 million in July 2003. As of 24 October 2003, the amount had still not been collected.

In addition to providing the $1 million, the November 1998 agreement was amended to extend the date for creation of 1,000 person years of employment from a six year period from July 1999 to July 2005, to the period ending in May 2008. We note that from the commencement of operations in July 1999 to April 2003, the company has reported that it had created 397 person years of employment.

The Department of Industry, Trade and Rural Development contravened the *Financial Administration Act* when it provided the $1 million to the company, in that the expenditure was recorded in 2002-03 as a payment "in trust" relating to an expenditure that was actually made in the 2003-04 fiscal year.

Update

In October 2003, we completed a further review to determine the status of the provisions of the agreement signed in November 1998, along with an update of any further agreements relating to Government's involvement with Composites. Our review indicated the following:

1998 Agreement

- The 1998 agreement between Government and Composites requires Composites to maintain accurate and complete accounting records in accordance with Canadian generally accepted accounting principles. Although the agreement provides that Government is permitted to inspect these records, no inspection of the records has ever been conducted.

- Although the agreement stipulates that Government shall be entitled to hold one seat on the Board of Directors of Composites, officials of the Department of Finance indicated that Government has not designated such a director.

- Although the agreement requires that Composites provide Government with evidence of satisfactory insurance over all insurable assets, at the time of our review the latest certificate of insurance on file had expired. There was no indication that Government had determined whether the policy, which had expired in May 2003, had been renewed. Subsequent to our request, a certificate of insurance was received by the Department of Finance on 30 October 2003.

- Government may have difficulty identifying tooling and equipment in the event it has to enforce the agreement's security provisions. This is due to the fact that certain tooling and equipment listed on Schedule "A" to the agreement's Security Debenture did not have a specific enough description and did not have serial numbers listed. Although this issue was brought to the attention of the Department of Finance as a result of our previous review, Schedule "A" to the Security Debenture has still not been amended.

2003 Agreement

In June 2003, an amendment was made to the terms of the 1998 agreement extending the date by which Composites is to create 1,000 persons years of employment to 1 May 2008, and acknowledging the person years of employment created by Composites as of 30 April 2002. In the same month, Government signed a share agreement with Composites and CHC Helicopter. Under this agreement, Government contributed $1 million toward the operating losses of Composites in exchange for 10,000 Series II Redeemable Preference Shares with a par value of $100 per share. As well, the existing 95,000 preference shares of Composites held by the Province were renamed Series I Redeemable Preference Shares.

Our review of the details of these transactions disclosed the following:

(a) Funding Request from Composites

In a letter to the Deputy Minister of the Department of Industry, Trade and Rural Development in December 2001, CHC Helicopter requested additional funding from Government for Composites. The request focused on the substantial operating deficits being experienced by Composites and the fact that shareholders of CHC Helicopter were no longer willing to solely fund these deficits. CHC Helicopter indicated that there was a risk that, to avoid further losses, it would shut the Gander plant should Government be unwilling to financially support a share of the operating deficits.

Correspondence on file at the Department indicated that, during 2002, Government officials continued to discuss with the company its request for assistance and to determine how much assistance Government was willing to provide. In December 2002, Government made a final offer to provide $1 million to CHC Helicopter with specified conditions.

(b) Government's Final Funding Offer to Composites

In January 2003, CHC Helicopter accepted the offer made by Government in December 2002 to advance a maximum of $1 million to Composites under the following conditions:

- The $1 million is to be provided on a 50-50 pro-rata basis toward the operating losses from 1 October 2002 until the Gander plant breaks even in accordance with Composites' operational plan.

- CHC Helicopter is to commit to the implementation of the operational plan for Composites and be responsible for sourcing the balance of all operating and capital requirements to achieve its projected breakeven position in accordance with the plan. This would include the maintenance of employment at or above current levels (120 to 125 person years) during this period.

- CHC Helicopter is to provide a corporate guarantee, in a form and on terms acceptable to Government, for the full amount of the investment, qualified only by CHC Helicopter's right to earn this investment back if incremental employment of 100 person years over those currently committed in the 1998 agreement, equating to a minimum of 25 permanent jobs, is achieved during a six year performance period commencing 1 May 2002.

- Government is to have the right to call on CHC Helicopter's guarantee in the event CHC Helicopter sells a controlling interest in Composites during the six year performance period, adjusted for any of the investment earned back to that point in time.

- CHC Helicopter is to repay Government the unearned portion of its $1 million contribution should the Gander plant be closed for any reason during the six year performance period, other than of a temporary nature acceptable to Government.

(c) Funding Agreements

In March 2003, Cabinet authorized the Minister of Industry, Trade, and Rural Development to enter into agreements with CHC Helicopter and Composites to disburse the $1 million from its existing 2002-03 budget. The March 2003 Cabinet Directive also gave approval for the Minister of Finance to amend the original 1998 agreement with Composites to set the commencement date for the achievement of the six-year employment target in that agreement as 1 May 2002, and to give Composites credit for any employment generated prior to 1 May 2002.

In June 2003, an agreement was entered into between the Province, Composites and CHC Helicopter which had an effective date of 1 October 2002. The agreement provided for the following:

- Government is to contribute $1 million toward Composites' operating losses in exchange for 10,000 Series II Redeemable Preference Shares with a par value of $100 per share.

- The existing 95,000 preference shares of Composites held by the Province are to be renamed "Series I Preference Shares".

- Composites is to be entitled to redeem, at nominal value, 1,000 Series II Redeemable Preference Shares for every 10 person years of employment provided during the period from July 1999 to May 2008.

- Any employment hours included in the calculation of redemption rights for Series I Preference Shares will not qualify towards the calculation of employment hours for the redemption of Series II Redeemable Preference Shares and as such Series II Redeemable Preference Shares cannot be redeemed until all Series I Preference Shares are fully redeemed or entitled to be fully redeemed.
- In addition, all conditions outlined in paragraph (b) were also required to be met.

A guarantee was provided by CHC Helicopter for the full $1 million investment. Government can call this guarantee as of 1 July 2008 if, as of that date, the Series II Redeemable Preference Shares have not been redeemed or are not entitled to be redeemed by Composites.

(d) Outstanding Personal Guarantee

In the March 2003 Cabinet direction authorizing the Minister of Industry, Trade, and Rural Development to enter into agreements with CHC Helicopter and Composites, Cabinet also directed the departments of Industry, Trade and Rural Development and Finance to pursue collection activity, including any necessary legal action against an individual, who is also the Chairman and Chief Executive Officer of CHC Helicopter Corporation, for an outstanding $150,000 personal guarantee with respect to another company, Sea Forest Plantation, which ceased operations in 1997. An official of the Department of Industry, Trade and Rural Development indicated that, although some collection efforts have been made, as of 24 October 2003 no amount has been collected on this outstanding debt.

(e) Payment of $1 million

Although Cabinet authorized the Department of Industry, Trade and Rural Development to make the payment from its 2002-03 budget, the Department did not make the payment until July 2003, from its 2003-04 budget.

On 31 March 2003, Treasury Board approved the transfer of $900,000 and $100,000 in savings from the sub-heads of Business Analysis and Regional Economic Development Services, respectively, to the sub-head Strategic Enterprise Development Fund (the Fund used to provide capital funds to the Business

Investment Corporation). The $1 million was then transferred to the Business Investment Corporation and charged as an expenditure for the 2002-03 year.

In a letter from the Deputy Minister of the Department of Industry, Trade and Rural Development to the Secretary to Treasury Board in June 2003, further detail was provided which stated that the $1 million allocation drawn down in the 2002-03 fiscal year from countervailing savings in the Department had been placed "in trust" with the Business Investment Corporation. The letter further stated that the $1 million held "in trust" was to be released and used in meeting the Corporation's normal business obligations in 2003-04. In addition, an equivalent amount would be frozen from the Corporation's 2003-04 budget allocation and that $1 million would be used from the Department's 2003-04 budget to facilitate the investment in Composites. It was requested that authority be provided for a transfer of the $1 million from the Department's Strategic Enterprise Development Fund activity to the Business Analysis activity. This transfer was authorized by the Secretariat and it was from the Business Analysis activity that the payment was originally charged in July 2003.

Section 23(1) of the *Financial Administration Act* states that estimates of expenditure submitted to the Legislature should be for goods and services coming in the course of payment during the fiscal year. Any remaining balances of appropriation at the close of the fiscal year shall lapse. It is our opinion that the budget adjustments transferred countervailing savings from one fiscal year to another, thereby expending a remaining balance of appropriation which otherwise would have been unexpended in 2002-03. The end result is that the Department increased its expenditure in 2002-03 related to an expenditure to be made in the 2003-04 fiscal year.

In addition, Government's Transfer of Funds Policy states that the Deputy Minister must ensure a transfer is necessary to enable the efficient delivery of ongoing services. In our opinion the transfer of the $1 million in 2002-03 was not necessary to enable the efficient delivery of services as the expenditure did not take place until July 2003.

It was noted that in September 2003, Treasury Board Secretariat advised the Department that the transfer authorized in June 2003 was issued in error and cancelled the authority. The Department was directed to reverse the transfer and to prepare an adjustment to recharge the $1 million paid to Composites to the Strategic Enterprise Development Fund activity.

Department of Finance Response

Inspection of Accounting Records *- As we have advised your Office in previous correspondence, nothing has yet been disclosed in the audited financial statements which would indicate that the Company is not following Canadian Generally Accepted Accounting Principles. As a result, the Department maintains the position that it has not been necessary to undertake its own review of the Company's accounting records to satisfy the condition of the 1998 Agreement.*

Appointment of Government Director *- Government has the option to appoint a Director to the Company's Board if it so chooses but, to date, has not elected to do so. This issue will be addressed, if necessary, as the Company moves towards full commercial operations.*

Insurance *- The Company does have insurance on its assets and insurance has been maintained on a continuous basis. The Company has now provided the Department with formal documentation confirming that an insurance policy remains in place. Prior to receipt of this documentation, the Company had advised, verbally, that insurance was being carried in compliance with the Agreement.*

Security *- The Department agrees that, the equipment listed on Schedule A does not contain serial numbers or other identification stickers in all cases. The Department feels that in many cases identification is not necessary since the equipment is unique to the business or customized specifically for the needs of the Company, and is therefore easily identified. However, the Department will review Schedule A with the Company to ensure that the Province's security registration contains all serial numbers which are available and adequate descriptions of the customized equipment where no identification is available.*

I also note that the Province's security consists of a fixed charge on the assets identified in Schedule A and, as well, a floating charge on all of the Company's property and assets, including future purchases.

2.27 Strategic Enterprise Development Fund

Department of Industry, Trade and Rural Development Response

Outstanding Personal Guarantee

The Department of Industry, Trade and Rural Development is continuing with its efforts to collect on the outstanding personal guarantee. While Cabinet directed the two departments to continue their collections activity on the personal guarantee, Cabinet did not make the collection of the personal guarantee a condition for the release of the $1 million investment in CHC Composites.

Payment of the $1 million

The requisite Cabinet and Treasury Board authorities for the investment in and the expenditure of funds to execute the agreements with CHC Composites, pursuant to the Financial Administration Act *and the Transfer of Funds Policy, were duly received by the Department of Industry, Trade and Rural Development. It is the view of Treasury Board Secretariat and the Comptroller-General that the expenditure of funds did not contravene the* Financial Administration Act *or the Transfer of Funds Policy.*

2.27 Strategic Enterprise Development Fund

2.28 Royal Newfoundland Constabulary

Introduction

The Royal Newfoundland Constabulary (RNC) was established in 1871. The mission of the RNC is to work with communities in Newfoundland and Labrador to foster safe communities by providing quality, professional, accessible, timely and fair police services to all. The RNC is responsible for policing three regions of the Province - the Northeast Avalon, Corner Brook and Labrador West. The population of these regions is approximately 201,000 (2001 census). In providing these services, the RNC currently employs 313 police members and 78 civilian staff.

On 2 December 1997, a Select Committee of the House of Assembly was appointed to enquire into the arming policy of the RNC and report its findings to the House of Assembly by 31 March 1998. The Select Committee conducted research, viewed presentations by interested parties and held public hearings. The Committee tabled its report to the House of Assembly on 31 March 1998. The report recommended that the arming policy of the RNC be amended to permit members on operational duty to wear sidearms as part of their regular uniform.

The Committee further recommended that:

- the Chief of Police have discretion in the administration of the policy including discretion in assigning officers to operational duty;
- police officers' sidearms be stored in a secure locker at the station when they are not on duty;
- a firearms audit acceptable to the Minister of Justice be performed annually and submitted to the House of Assembly; and
- the arming policy be reviewed at the end of five years by a Select Committee of the House of Assembly.

As a result of the recommendations of the Select Committee on the Arming Policy of the RNC, members on operational duty were permitted to wear sidearms commencing 14 June 1998. To provide specific direction to members on the control and usage of firearms, a Firearms Policy was also issued at this time. Figure 1 outlines the number of firearms maintained by the RNC as of October 2003.

2.28 Royal Newfoundland Constabulary

Figure 1

Royal Newfoundland Constabulary
Number of Firearms
October 2003

	St. John's	Corner Brook	Labrador West	Total
Handguns	337	48	24	409
Shotguns	40	6	8	54
Rifles	101	16	6	123
Total	478	70	38	586

Source: RNC Inventory System

Scope and Objectives

One of the recommendations of the Select Committee on the Arming Policy of the Royal Newfoundland Constabulary was that a firearms audit acceptable to the Minister of Justice be performed annually and submitted to the House of Assembly. To comply with this recommendation, the Chief of Police has again requested my Office to conduct an annual audit of firearms in 2003. In November 2003 we completed our fifth annual review. The objectives of the review were to:

- Determine whether the RNC has adequate systems in place to record, monitor and secure its firearms inventory. This included determining, as recommended by the Select Committee, whether sidearms are stored in a secure locker at the station when members are not on duty.
- Determine whether the Firearms Policy covered all relevant issues pertaining to the use and control of firearms.
- Determine whether the RNC has adequate procedures to monitor members' compliance with the Firearms Policy and where appropriate, test compliance with this Policy.

Conclusions

Control over Firearms and Ammunition

In 1998, members of the Royal Newfoundland Constabulary were permitted to wear firearms as part of their regular uniform. The Select Committee of the House of Assembly which recommended the new arming policy also recommended that a firearms audit be performed annually and submitted to the House of Assembly. As a result, this is our fifth annual firearms audit.

Although the RNC has adequate systems in place to record, monitor and secure its firearms, each year we identify instances of non-compliance with policy. Given the serious repercussions that could result from the use of firearms, it is critical that the RNC continue efforts to improve compliance with established policies and procedures.

Our review identified a number of issues which should be addressed. For example:

- The firearms and ammunition inventory system is not accurate in that we found 5 instances where firearms were found in a location other than that recorded in the system.

- We found instances of non-compliance with the Firearms Policy during an inspection in October 2003. Instances included 3 members who had a loaded firearm in their locker, the amount of ammunition in the lockers of 11 members did not agree with the inventory system, and there were 4 members who did not have pepper spray stored in their lockers. Furthermore, our review of infractions during the year indicated not all infractions were referred to the RNC's Professional Standards Bureau for investigation.

- The required monthly inspections of firearms storage lockers are not always performed.

- The required annual requalification for the use of firearms training had not been provided to 55 members. Furthermore, we determined that information in the training database is neither complete nor accurate. Of particular concern is that, as the system is used to determine what use of force training has already been provided and what training is left to be provided, inaccuracies may result in a situation where a member may not receive all of the necessary use of force training.

- Although the Use of Force Review Board is required to review all instances of use of force, the Board has not met since October 2002. Furthermore, although all Board members used to receive copies of the use of force reports, this practice was discontinued after May 2002. Instead, only one member of the Board, the Firearms and Use of Force Instructor, receives the reports. There were 494 use of force incidents reported between 1 November 2002 and 31 August 2003. Of these 494 incidents, 40 related to firearms, 37 of which involved drawing and/or pointing a firearm at a person while the remaining 3 involved the discharge of a firearm regarding animals.

Select Committee of the House of Assembly

The arming policy of the RNC is to be reviewed at the end of five years by a Select Committee of the House of Assembly, i.e. March 2003. As at November 2003 the arming policy has not been reviewed.

Findings and Recommendation

Inventory Management

The RNC has developed inventory control procedures to provide for the proper management of its firearms. These policies include such areas as the assignment of responsibility for control of weapons, the maintenance of a perpetual inventory system, the requirement for annual inventory counts and reports thereon, and procedures to update the inventory system for acquisitions, transfers, dispositions and any required adjustments.

An internal review conducted by the Quality Performance Section in April 2003 indicated differences in the count of ammunition and firearm assignments. A further review conducted in September 2003 indicated that there were still differences in firearm assignments. As a result of our review, we have concluded that the RNC should continue its efforts to improve controls over firearms inventory. Our review indicated the following issues:

- Although the inventory system is a perpetual system (i.e. it is supposed to be continually updated), we determined that required adjustments, including additions, dispositions or internal re-assignments of firearms and ammunition, are not always made on a timely basis. Therefore, information on firearms and ammunition inventory is not always accurate and up to date. For example, during firearm locker inspections and an inventory count that we conducted in October 2003, we found that, although firearms had been re-assigned, the re-assignments had not been entered in the inventory system.

2.28 Royal Newfoundland Constabulary

- We tested the accuracy of the inventory listings for firearms and ammunition in St. John's by selecting all physical inventory items at RNC offices and comparing them to the inventory system. We also selected almost all of the firearms from the inventory system to ensure that the firearm was located where listed in the inventory system. Our review indicated that the inventory system was not accurate as follows:

    - There was 1 instance where a firearm recorded in the inventory system could not be located. It was subsequently determined that this firearm did not exist and that the serial number had been entered in the inventory system in error. Although this instance was also reported in our 2002 report, the serial number for this firearm was never removed from the inventory listing.

    - There were 5 instances where firearms were located in a different physical location than recorded in the system. In 4 of the 5 instances, the RNC was able to account for the differences by providing copies of input forms which had yet to be posted to the inventory system. In 3 of those instances firearms had been assigned to members but listed as being in the arsenal, in 1 instance a firearm was in the arsenal but listed as being assigned to a member, and in 1 instance a firearm in one office was listed as being held by a member who had been reassigned to another office and had been assigned another firearm.

    - There are 13 types of ammunition in the inventory system and we reviewed all 13 types at St. John's. We found that for 6 types of ammunition, the physical count did not agree to what was recorded in the inventory system. In 5 of the 6 types, the RNC was able to account for the missing ammunition by providing copies of input forms which had yet to be posted to the inventory system. For the remaining type, there were 50 rounds of 38 calibre blanks that could not be accounted for.

2.28 Royal Newfoundland Constabulary

Firearms Policy

The RNC has a Firearms Policy which provides specific direction to its members on the control and usage of firearms. Our review included a comparison of this policy with policies of other Canadian police jurisdictions. These jurisdictions included Halifax, Toronto Metro, Winnipeg, Brandon, Edmonton, Calgary, Vancouver, and New Westminster. We also reviewed procedures used by the RNC to monitor members' compliance with the Firearms Policy which include inspections of firearms and firearms storage areas, review of reports prepared by members who have drawn firearms, and internal quality reviews over firearms. Where appropriate, we also tested compliance with this policy. Our review of these areas indicated the following:

1. Adequacy of Policy

Our review indicated that, in general, the Firearms Policy of the RNC is comparable to that of the other Canadian police jurisdictions and covered similar issues pertaining to the use and control of firearms.

2. Compliance with Policy

A review of documentation maintained by the RNC in monitoring compliance with the Firearms Policy, discussions with RNC officials and testing of compliance with this Policy by my Office indicated that members are not always complying with the Firearms Policy. For example:

- The Firearms Policy requires unloaded firearms to be secured in the members' personal firearms storage lockers at RNC facilities or in other approved locations when the member is not on duty. To monitor compliance with this policy, the Inspections Officer or their designate at other detachments is required to conduct a monthly inspection of the firearms storage lockers. Any infractions with this policy are reported to the District Inspectors or the Divisional Commanders to follow up with the members.

  A review of these monthly inspection reports, covering the period November 2002 to October 2003, indicated infractions such as ammunition not stored in the locker even though the member was not on duty, missing pepper spray, and stored firearms which were loaded. The monthly inspection reports also noted instances where firearm storage lockers were empty; however, there was no indication on the final resolution as to whether the member may have been on duty. Furthermore, we found that none of the instances of unresolved empty storage lockers were ever reported.

We were informed that certain infractions identified by the Inspections Officer are required to be referred to a RNC Professional Standards Bureau for investigation. Such infractions include firearms stored loaded, missing pepper spray or firearms stored someplace other than the firearms locker. Ammunition infractions are not referred to the RNC Professional Standards Bureau. During the period, there were 28 ammunition infractions. During the same period, there were 35 infractions required to be referred to the RNC Professional Standards Bureau; however, only 13 were referred.

Reviews conducted by the Quality Performance Section in April 2003 and September 2003 also noted infractions regarding firearms storage. These included a stored loaded firearm and missing pepper spray.

As part of our review, we attended the October 2003 monthly inspection for the St. John's detachment including its district offices in Mount Pearl and St. John's East along with satellite offices in Conception Bay South and Torbay. During this inspection, we observed 18 infractions of the Firearms Policy. For example:

  - There were 3 members who had a loaded firearm in their firearm locker.
  - The amount of ammunition stored in the lockers of 11 members did not agree to the amount of ammunition assigned to the members as recorded in the inventory system. In 7 of the 11 instances ammunition was missing, in 2 instances extra ammunition was in the locker, while in the remaining 2 instances the members had ammunition in their locker even though they were on duty.
  - There were 4 members who did not have their pepper spray stored in the locker.

- In conducting the monthly firearm locker inspections, the RNC uses firearm locker assignment listings which include locker number, member's name, firearm serial number, rounds of ammunition issued and pepper spray serial number to match contents to what is assigned. During the inspections we attended in October 2003, we identified 9 instances in St. John's where the information contained on the locker assignment listings was not accurate. These instances included duplicate locker assignments and lockers indicated as vacant which were actually in use. This could result in an infraction being cited for the wrong member and also adds confusion when completing the monthly locker inspection. In 4 of the 9 instances, the RNC was able to account for the differences by providing copies of input forms which had yet to be reflected in the firearm locker assignment listings.

- RNC policy requires firearm storage lockers to be inspected on a monthly basis. Our review indicated that the monthly inspections were not performed in March 2003 in St. John's and Corner Brook, and again in St. John's in July 2003. As well, in January 2003 and April 2003, there is no indication that the lockers in the Tactical Response Unit's Room were included in these inspections. We also found no evidence that the satellite offices in Conception Bay South and Torbay were included in the monthly inspections.

- RNC policy requires that all personnel and equipment be inspected a minimum of twice per year by the Inspections Officer and that a report be provided to the Chief of Police. While these semi-annual inspections were conducted, we found the following issues:

    - The semi-annual inspection report resulting from a review of personnel and equipment conducted in the summer of 2003 had not been provided to the Chief of Police as at November 2003. Furthermore, inspections conducted in December 2002 and January 2003 were not provided to the Chief of Police until April 2003.

    - The report prepared for the December 2002 and January 2003 inspections indicated there were 322 police members; however, only 309 inspections were completed. Furthermore, only 260 of the reported 309 inspection forms were available for us to review. The 260 forms showed that 185 members were in compliance while the remaining 75 members were found to be missing required equipment. There was, however, no indication of any problems with the firearms assigned.

- Use of force training consists of a basic one week use of force program plus four modules which are to be offered on a continual basis. Module 1 covers firearms, module 2 covers defensive tactics/handcuffing techniques/baton, module 3 covers tactical room entries/weapons retention and module 4 involves a lecture on the use of force continuum. Use of Force Policy requires that members complete module 1 annually and complete the remaining three modules on a cyclical basis over a three year period. During 2003, all 313 current members were required to complete modules 1 and 4 unless exempted for a valid medical reason.

The RNC maintains a database to track training in use of force. We reviewed the information contained in this database as of 5 November 2003. Our review indicated the following:

- We tested the accuracy of the inputs into this system and determined that the information was neither complete nor accurate. For example, in 1 instance the date for training was entered incorrectly, in 6 instances training was completed but not entered into the system and in 4 instances training dates were entered in the system even though the member did not receive the training. Indication in the system in error that a member received training is of particular concern, as the system is used to determine what use of force training has already been provided and what training is left to be provided, a member may not receive all of the necessary use of force training.

- This database contained the names of 314 individuals even though 1 had left the RNC in December 2001, leaving 313 current members. This individual was also identified in our 2002 report; however, the database has not been adjusted.

- 18 of the 313 members in the database do not receive any sort of use of force training for medical reasons. None of these members have been issued a firearm. Of the remaining 295 members, 165 have completed module 1 in the required one year time frame, 75 are not yet due for training and the remaining 55 did not receive firearms training in the required one year time frame.

- 217 of the 295 members had completed module 4 of the use of force training as of 5 November 2003. To comply with RNC policy, the remaining 78 members will have to be trained by 31 December 2003.

As a result, the RNC is not complying with its policy for the use of force training as 55 members have not requalified in the use of firearms in the required one year time frame.

- The Firearms Policy requires that one 12 gauge shotgun be contained in each of the six supervisory vehicles used by a Non-Commissioned Officer (Sergeant in charge of shift) and the Operational Supervisor (Staff/Sergeant in charge of a shift) for use in responding to certain threats. These firearms are to be removed at the end of each shift or during prolonged absences from the vehicle. A log book has been provided to record the logging out and in of these shotguns.

  Our review of these log books indicated that there are instances where supervisors sign out the shotgun but do not sign the shotgun back in at the end of the shift. In addition, we identified instances where no shotgun was signed out on certain days even though the supervisory vehicles are used on a daily basis. These gaps would indicate that either the supervisor is not out on patrol, is out on patrol without the shotgun or out on patrol with the shotgun which has not been signed out. A report prepared by the Quality Performance Section in April 2003 noted similar issues.

- The Firearms Policy requires members to use loading/unloading ports that are located in firearms storage areas for the loading and unloading of firearms. During attendance at the October 2003 inspection of firearms storage lockers in St. John's, we observed one member unloading their firearm without using this port. While attending the locker inspection at the St. John's East District office, we observed that the firearms locker room does not contain a loading/unloading port.

- The Firearms Policy requires that members be fully versed in the Use of Force Guidelines as outlined in the Use of Force Policy. These Guidelines provide guidance with respect to when it is appropriate to use force and the level of force required to be used in various situations. The Use of Force Policy requires that any time a member uses any type of force from simple restraint to discharging a firearm, a Use of Force Report must be filed.

  RNC Policy requires that these reports be reviewed by the member's immediate supervisor and the District Inspectors and/or Divisional Commanders, and submitted to the Chief of Police. Under the Use of Force Policy, the Use of Force Review Board should also receive a copy of the report. This Board was established by the RNC to monitor the procedures, practices and training relating to the use of force and to review all incidents of use of force.

2.28 Royal Newfoundland Constabulary

There were 494 use of force incidents reported between 1 November 2002 and 31 August 2003. Of these 494 incidents, 40 related to firearms, 37 of which involved drawing and/or pointing a firearm at a person while the remaining 3 involved the discharge of a firearm regarding animals.

Our review of this area indicated the following:

- Although the Use of Force Review Board is required to review all instances of use of force, the Board has not met since October 2002. Furthermore, although all Board members used to receive copies of the use of force reports, this practice was discontinued after May 2002. Instead, only one member of the Board, the Firearms and Use of Force Instructor, receives the reports.
- There were 18 Use of Force Reports which were not signed as evidence of review by the District Inspector. Furthermore, although a new form was introduced in May 2001, to include information on such things as the use of handcuffs and also provided a place for signature approval, we found 19 instances where the old form was used.

Instances of force may also be reviewed by either the Public Complaints Commission or the RNC's Professional Standards Bureau upon the receipt of a complaint from a member or the general public. We have been informed that there were no complaints received by the Public Complaints Commission regarding use of firearms by members during the period 1 November 2002 to 5 November 2003. However, there were 15 internal complaints received by the Professional Standards Bureau of the RNC during the period 14 November 2002 to 19 November 2003, 13 of which resulted from firearm locker inspections. Of these 13 complaints, 9 were followed up and action was taken against the members while investigation of the remaining 4 is ongoing. The action taken included counselling and, verbal and written warnings. The remaining 2 of the 15 complaints involved an anonymous complaint which proved to be unfounded and a pepper spray incident at a break and enter with the finding of no breach of policy and procedures.

2.28 Royal Newfoundland Constabulary

Select Committee of the House of Assembly

On 2 December 1997, a Select Committee of the House of Assembly was appointed to enquire into the arming policy of the RNC. The Committee tabled its report to the House of Assembly on 31 March 1998 and included the recommendation that the arming policy be reviewed at the end of five years, i.e. 31 March 2003, by a Select Committee of the House of Assembly. As at November 2003 the arming policy of the RNC has not been reviewed.

Recommendation

The Royal Newfoundland Constabulary should comply with established policy.

Royal Newfoundland Constabulary's Response

The Royal Newfoundland Constabulary acknowledges the Auditor General's Report and has taken appropriate actions to address the issues identified in this report.

The Royal Newfoundland Constabulary through research and development has established policy to ensure control over firearms and ammunition. This organization on a continuous basis through training, inspections and reviews, ensures that this policy is adhered to and when non-compliance is discovered, appropriate corrective action is initiated.

The Royal Newfoundland Constabulary continues to have a progressive attitude towards Use of Force training and we will continue in the future to ensure all members are trained for their safety and the safety of the general public they serve.

The Royal Newfoundland Constabulary acknowledges the fact that there were no complaints received by the Royal Newfoundland Constabulary Public Complaints Commission regarding use of firearms by members during the period November 1, 2002 to November 5, 2003. Of note, the Public Complaints Commission had no complaints for the period of November 1, 2000 to October 31, 2002.

2.28 Royal Newfoundland Constabulary

Inventory Management

The Royal Newfoundland Constabulary concurs updates were not always made on a timely basis and the inventory listing for firearms and ammunition was not always accurate. These discrepancies were caused due to operational requirements and human resource issues, namely, the organization's inability to provide a dedicated secretarial support staff to the Use of Force Unit.

Firearms Policy

The Royal Newfoundland Constabulary conducts continuous inspections, quality reviews and internal audits and where any non-compliance of policy is identified, appropriate action is initiated including disciplinary action where necessary.

Use of Force Training

The Royal Newfoundland Constabulary has a progressive attitude towards Use of Force Training and will continue in the future to ensure all members are trained for their safety and the safety of the general public. The discrepancies identified in the training database by the Auditor General have been corrected and the Royal Newfoundland Constabulary has taken measures to ensure that these discrepancies will not occur again. The Royal Newfoundland Constabulary will ensure all members will be trained in Use of Force.

2.28 Royal Newfoundland Constabulary

2.29 Mining Act

Introduction

The Department of Mines and Energy is responsible for the promotion and facilitation of the sustainable development of the Province's mineral and energy resources. This includes monitoring and analysing all aspects of individual mining operations, new and proposed mineral developments and the collection of all statistics on the mining industry and individual mining and quarry operations.

To commence a mining or quarry project in the Province, a lease has to be obtained from the Department. After obtaining a lease, the lessee must comply with the requirements of the *Mining Act* in carrying out these operations. The *Mining Act* came into force on 30 June 2000 to improve the orderly development of the Province's mineral resources. *Mining Regulations*, *Small Scale Operations Regulations* and related Guidelines have been issued under the authority of the *Mining Act*. Lessees who held a lease prior to 30 June 2000 were required to comply with provisions of the *Mining Act* by 1 January 2002.

The *Mining Act* includes requirements for the submission of plans by the lessee to the Minister of the Department for project development, rehabilitation and closure, and the submission of an operational plan for the upcoming year and an annual report on operations for the preceding year. As defined by the *Mining Act*, a project may consist of activities carried out under one or more leases. The *Mining Act* also includes a requirement for the lessee to provide financial assurance which would enable the Minister to rehabilitate or close out a project if the lessee fails to do so.

The Department maintains a database of information on mining leases in the Province. Figure 1 provides information on the leases and lessees at 31 March 2003. The Figure shows that there were 85 lessees holding 173 leases. Of these 173 leases, 66 relate to active mining or quarry operations, 5 were still in the development stage, and 102 relate to inactive operations.

Figure 1

Department of Mines and Energy
Status of Leases
31 March 2003

Type of Lease	Active	Developing	Inactive	Total
Mining	30	5	30	65
Quarry	31	0	11	42
Other (Note 1)	5	0	61	66
Total Leases	**66**	**5**	**102**	**173**
Total Lessees	**38**	**1**	**46**	**85**

Source: Department of Mines and Energy database
Note 1 - Pre-confederation grants of mineral rights

Scope and Objectives

We completed our review in March 2003. Our review covered the period from 30 June 2000, when the *Act* and *Regulations* came into force, to 31 March 2003. Our objective was to determine whether lessees are complying with the *Mining Act* and *Mining Regulations* and in particular, whether lessees have:

- submitted a development plan;
- submitted a rehabilitation and closure plan;
- provided the required financial assurance; and
- submitted reports on mining operations for both the upcoming and the preceding years on an annual basis.

Conclusions

The Department of Mines and Energy is not obtaining all of the information required under the *Mining Act* and *Mining Regulations* necessary to monitor mineral development in the Province. At 31 March 2003, there were 38 lessees holding 66 active leases.

Twenty-one lessees holding 31 active mining and quarry leases have applied for designation as a small scale operation which would exempt them from the requirements of the *Mining Act*. However, as at 31 March 2003, the Department had not completed its evaluation for any of the 21 lessees relating to these 31 active leases and therefore, it had not determined whether the lessees were required to provide the information outlined in the *Mining Act* and *Mining Regulations*. Although the remaining 17 lessees holding 35 active leases were required to comply with the *Mining Act* and *Mining Regulations*, all were in violation of the *Act* and *Regulations* in that the Department has indicated that not all of the required information had been obtained.

As a result, the Department has not determined the potential environmental impact for all 66 active leases held by 38 lessees in the Province and the potential liability to the Province of any future remediation and rehabilitation costs.

Findings and Recommendations

The *Mining Act* and *Mining Regulations* came into force on 30 June 2000. Lessees who held a lease prior to 30 June 2000 were required to comply with provisions of the *Mining Act* and *Mining Regulations* by 1 January 2002. The Department issued a letter to existing lessees on 14 September 2000 outlining the reporting and financial requirements under the new mining legislation. The Department issued a reminder letter to lessees on 1 March 2001 and issued a further reminder letter in November and December 2001 to those lessees who had not submitted the required information to the Department. In addition, as provided for under the *Mining Act*, on 7 March 2002, the Minister designated three existing employees as inspectors to carry out various inspection activities at the mining and quarry sites in addition to their regular duties. These inspectors have made initial visits to the relevant properties and the inspections, to date, have focussed on assisting the lessees with becoming compliant with the reporting requirements of the *Act*.

As indicated in Figure 1, at 31 March 2003, there were 38 lessees, holding 66 active leases, who would be required to submit the required plans, reports and financial assurance to the Department. However, under the authority of the *Small Scale Operations Regulations* of the *Mining Act*, the Minister prescribed Guidelines to designate, upon application, an operation as a small scale operation which exempts the operator from all of the requirements of the *Mining Act*.

As outlined in Figure 2, at 31 March 2003, 21 lessees holding 31 of the 66 active leases have applied to the Minister over the last two years for designation as a small scale operation which would exempt the operator from the requirements of the *Mining Act*; however, as of 31 March 2003, our review indicated that the Department of Mines and Energy, in conjunction with the Department of Justice, is still reviewing this area and has not designated any of the 21 lessees as conducting small scale operations relating to the 31 leases. As the 21 lessees are still waiting on approval of their applications, these lessees have not submitted any plans, reports or financial assurance that would be required under the *Mining Act*. Thus, our review focussed on the remaining 35 leases, as outlined in Figure 2, for which the 17 lessees have not applied for an exemption under the *Small Scale Operations Regulations* and, therefore, are required to comply with the *Mining Act* and *Mining Regulations*.

Figure 2

Department of Mines and Energy
Status of Leases
31 March 2003

Type of Lease	Active		Exemption Application		Required to be in Compliance	
	Lessees	Leases	Lessees	Leases	Lessees	Leases
Mining	11	30	3	8	8	22
Quarry	25	31	18	23	7	8
Other (Note 1)	2	5	0	0	2	5
Total	**38**	**66**	**21**	**31**	**17**	**35**

Source: Department of Mines and Energy database
Note 1 - Pre-confederation grants of mineral rights

Submission of Plans and Reports

Under the *Mining Act*, *Mining Regulations* and Guidelines to the *Mining Act*, lessees are required to submit the following information:

- A **Development Plan** which would include a description of the project, including the anticipated time lines for completion of and duration of all stages of the project (i.e. development, operation, rehabilitation and closure); a surface plan; and a description of the mining process. This Plan must be approved by the Minister of Mines and Energy before a lessee can commence operations.

- A **Rehabilitation and Closure Plan** which would include a description of work to be carried out as outlined in the Guidelines; the detailed scheduling of and cost of all rehabilitation and closure activities; and a statement of a qualified person that the estimate of the cost of completing the work set out in the rehabilitation and closure plan is reasonable. The rehabilitation and closure plan must be acceptable to the Minister.

- **Financial Assurance**, as part of a rehabilitation and closure plan, in a form acceptable to the Minister, including cash; a letter of credit from an approved bank; a bond; or an annual contribution to a financial assurance fund established for the operation. The financial assurance is based on the estimated cost of all rehabilitation and closure activities. The estimated costs are reviewed by a qualified person who certifies that the costs are reasonable.

- An **Operational Plan** for the coming year which would include an ore reserve statement; a description of the surface and underground exploration work planned for the year; a description of the progressive rehabilitation work planned for the year; the volume, tonnage, and location of tailings to be discharged; and a listing, with cost estimates and timing, of all major capital expenditures for the year. This plan is required to be submitted to the Minister no later than one month before the commencement of the operating year of the lessee.

- An **Annual Report** for the preceding year of operations which would include actual results for the same areas covered in the Operational Plan. This Report is required to be submitted to the Minister no later than two months after the end of the operating year of the lessee.

The Department maintains a database that records information on all leases and lessees such as lease number, lease type (i.e. mining, quarry), duration of lease, date the lease was issued, location of site, and whether the operation is active. The Department does not, however, maintain any system or listing that provides information on what each lessee is required to provide to the Department, what type of information the lessee actually provided and, therefore, whether or not the lessee is in compliance with the mining legislation. As a result, in order to determine whether the 17 lessees holding the 35 leases were in compliance with the *Mining Act* and *Mining Regulations*, we reviewed the individual files of each lessee. The results of our review are outlined in Figure 3.

Figure 3

Audit Results
Submission of Information by Lessees
31 March 2003

Type of Lease	Total	Development Plan	Rehabilitation & Closure Plan	Financial Assurance	Operational Plan	Annual Report
Mining	8	7	6	5	0	0
Quarry	7	6	6	2	0	(Note 2) 0
Other (Note 1)	2	1	0	0	0	0
Total Lessees	**17**	**14**	**12**	**7**	**0**	**0**
Total Leases	**35**	**31**	**22**	**16**	**0**	**0**

Source: Department of Mines and Energy Records
Note 1 - Pre-confederation grants of mineral rights
Note 2 - One lessee commenced operations within the year and, therefore, an annual report was not due to be submitted.

As Figure 3 indicates, lessees are not complying with the requirements of the *Mining Act* and *Mining Regulations*. The appendix to this report provides details of what information, as required by the *Mining Act* and *Regulations*, has been provided by each of the 17 lessees holding 35 leases.

Our review disclosed that none of the 17 lessees were in full compliance with the *Mining Act* and *Regulations*, as follows:

- Development plans have not been submitted by 3 of the 17 lessees. Of the 14 lessees who submitted development plans, 8 were submitted after the required transitional deadline, i.e. 1 January 2002. The *Act* requires the Minister to approve development plans before a lessee can commence operations; however, none of the plans submitted have been approved.

- Rehabilitation and closure plans have not been submitted by 5 of the 17 lessees. Of the 12 lessees who submitted rehabilitation and closure plans, 5 were submitted after the required transitional deadline, i.e. 1 January 2002. Although the rehabilitation and closure plan must be acceptable to the Minister, there is no documentation to indicate that the plans submitted have been accepted.

- Financial assurance proposals have not been received from 10 of the 17 lessees. Of the 7 proposals received, only 2 were determined by the Department to meet the requirements of the *Mining Act* and *Regulations*.

- Operational plans have not been submitted by any of the 17 lessees. Without these plans, the Minister can not determine what is planned for the year, for example, in the area of planned exploration work or planned rehabilitation work. Thus, there is no basis upon which to evaluate the actual work completed during the year and whether, for example, completed rehabilitation work was progressing according to plan and to the satisfaction of the Minister.

- None of the 16 lessees required to submit an annual report, have submitted the required reports. As a result, the Department does not know what work was carried out by these lessees during the year compared to what was planned. The remaining lessee commenced operations for a lease during the current year and therefore, at the end of our review, no annual report was due to be submitted.

As the above information shows, the Department has not obtained the information required under the *Mining Act* and *Regulations* relating to these 35 active leases held by 17 lessees in the Province. Furthermore, 21 lessees holding 31 active leases have applied for exemption under the *Small Scale Operations Regulations* and are still waiting on approval of their applications. Therefore, these lessees have not submitted any plans, reports or financial assurance that would be required under the *Mining Act*.

As a result, the Department has not determined the potential environmental impact for all 66 active leases held by 38 lessees and the potential liability to the Province of any future remediation and rehabilitation costs.

Recommendations

The Department should increase its efforts to enforce compliance with the Mining Act *and the* Mining Regulations *by lessees.*

The Department should increase its efforts to process applications from lessees for designation as a small scale operation under the authority of the Small Scale Operations Regulations *of the* Mining Act.

2.29 Mining Act

To assist in monitoring compliance with the Mining Act *and* Mining Regulations, *the Department should maintain an information system or listing that provides information on what each lessee is required to provide to the Department and what type of information the lessee actually provided.*

Department's Response

The passage of the Mining Act *provided the Department of Mines and Energy with an administrative tool which would ensure that new and existing mining operators would develop and operate their mining and processing operations using the best resource management practices possible.*

Since its introduction, the Department has worked with industry to assist companies to become compliant with the requirements of the Act. *This process has taken longer than originally envisaged due to a number of factors: the loss of key staff both within the Department and several firms causing delays in preparation and review of required documents, other pressures that arose that required industry's immediate attention, as well as the Department's under-estimation of the time that would be required to provide assistance, review documents and for discussion and negotiation. These factors have been overcome and we expect all companies to be in compliance with the* Act *before April 2004.*

The Department of Mines and Energy appreciates the Auditor General's review of its administration of the Mining Act and welcomes the recommendations that have been advanced. The Department has implemented all of these recommendations and work has progressed to the point that all applications for small scale operation exemptions have been processed.

Appendix

Information Submitted
By Lessee
As at 31 March 2003

Lessee	# of Active Leases	Development Plan	Rehabilitation & Closure Plan	Financial Assurance	Operational Plan	Annual Report
Mining						
Atlantic Minerals Limited	4	Yes	Yes	Yes	No	No
BBK Quarry Limited	1	Yes	Yes	No	No	No
Galen Gypsum Mines Limited	2	Yes	Yes	Yes	No	No
Iron Ore Company of Canada	4	Yes	Yes	Yes	No	No
Lafarge Gypsum Canada Inc.	2	Yes	Yes	Yes	No	No
Richmont Mines Inc.	2	Yes	Yes	Yes	No	No
Shabogamo Mining and Exploration Limited	2	No	No	No	No	No
Wabush Mines	5	Yes	No	No	No	No
Total Mining	**22**	**7**	**6**	**5**	**0**	**0**
Quarry						
City Sand and Gravel	1	Yes	Yes	Yes	No	No
Glen Corporation	1	Yes	Yes	No	No	No
J. Tuach Geological Consultant	1	Yes	Yes	No	No	Not Yet Due
Modern Holdings	2	Yes	Yes	No	No	No
Ray Murrin Limited	1	Yes	Yes	Yes	No	No
Torngait Ujaganmaivingit Corp	1	No	No	No	No	No
Traverse, Ross	1	Yes	Yes	No	No	No
Total Quarry	**8**	**6**	**6**	**2**	**0**	**0**
Other (Note 1)						
Westside Asphalt and Concrete Inc.	4	Yes	No	No	No	No
Greenslades Construction	1	No	No	No	No	No
Total Other	**5**	**1**	**0**	**0**	**0**	**0**
Total	**35**	**14**	**12**	**7**	**0**	**0**

Note 1 - Pre-confederation grants of mineral rights

2.29 Mining Act

2.30 Debt Relief Program

Introduction

The Department of Municipal and Provincial Affairs is responsible for matters relating to local government, municipal financing, urban and rural planning, development and engineering, and coordination of emergency planning for municipalities.

In 1996-97, the Department of Municipal and Provincial Affairs introduced a Debt Relief Program to assist municipalities in debt refinancing or debt restructuring. The Program is intended to assist municipalities in poor financial condition as determined by a comprehensive review of individual municipalities' past performance in relation to financial activities, with consideration of other factors including economic conditions, taxing capacity, and out-migration.

As at July 2003, Government has allocated approximately $47.0 million in Program funding to 75 municipalities as shown in Figure 1. In addition, non-financial assistance has been provided to 52 municipalities.

Figure 1

Department of Municipal and Provincial Affairs
Debt Relief Expenditure
31 March

Year Agreement signed	Number of Municipalities	Funding (Millions)
1998	5	$ 3.0
1999	9	4.4
2000	14	10.2
2001	11	5.5
2002	17	7.6
2003	16	15.5
April 2003 to July 2003	3	0.8
Total	75	$ 47.0

Source: Department of Municipal and Provincial Affairs

2.30 Debt Relief Program

Scope and Objectives

In October 2003, we performed a review of the Debt Relief Program. The objectives of our review were to:

- assess the Department's progress in addressing the financial problems of the Province's municipalities;
- determine whether Program Guidelines were in place and being complied with; and
- determine whether the Program was adequately monitored and reported.

Conclusions

In 1997 the Department estimated there were 170 municipalities which should be reviewed to determine whether they required assistance under the Debt Relief Program. The Department targeted municipalities which spent 30% or more of their municipal operating grant and tax revenues on debt servicing costs. In May 1999, the Department estimated that it would complete its review of the 170 affected municipalities by 31 March 2000.

As of July 2003, 39 months after the Department's target date of 31 March 2000 to prepare a plan and provide the necessary assistance for the estimated 170 municipalities, only 114 of the 141 municipalities meeting the 30% debt servicing cost to revenue ratio identified in 1997 had been reviewed and assisted. Of the remaining 27 municipalities in this category, 22 had reviews at various stages of completion while 5 have not been reviewed. However, 13 municipalities were reviewed and assisted even though they did not meet the 30% debt servicing cost to revenue ratio identified in 1997. Of these 13 municipalities, 6 received financial assistance while 7 received non-financial assistance. Three of the 6 municipalities which received financial assistance still had a debt servicing cost to revenue ratio of less than 30% when they received assistance.

Program Guidelines indicate that the debt servicing cost to revenue ratios will be the basis for targeting municipalities for review. Although the Department determined the debt servicing cost to revenue ratios in 1997 to identify which municipalities would be reviewed for assistance under the Program, this information has not been updated since that time. Instead, the Department concentrates on Newfoundland and Labrador Municipal Financing Corporation (NLMFC) arrears and requests from municipalities seeking assistance. As a result, the Department has not identified which municipalities currently meet the debt servicing cost to revenue criterion necessary to prioritize reviews and determine eligibility for assistance.

Although reviews in progress in July 2003 have identified that the municipalities will require debt relief funding of approximately $9 million, there was no Program funding in the approved 2003-04 budget. Furthermore, a request for more funding for 2003-04 to continue the Debt Relief Program was deferred by Treasury Board.

Although Program Guidelines provide for an action plan that will permit the municipality to maintain stability in its financial affairs, the financial analysis and resulting agreements with municipalities did not address future capital works and funding requirements. As a result, there may be issues relating to future financial stability.

Monitoring and reporting is inadequate in that inspection targets were not established, annual inspections were not performed subsequent to assistance being provided, action plans addressing non-compliance with agreements were not being prepared, and quarterly reports outlining the status of instances of non-compliance, are not being provided to the Assistant Deputy Minister.

Findings and Recommendation

The Debt Relief Program was introduced in 1996-97 to assist municipalities in poor financial condition. Financial condition was to be determined by a comprehensive review of individual municipalities' past performance in relation to financial activities, with consideration of other factors including economic conditions, taxing capacity, and out-migration.

The municipalities targeted under the Program were those which spent more than 30% of their municipal operating grant and tax revenues on debt servicing costs. In April 1997, the Department estimated that 170 of the Province's 290 municipalities met the target criteria and therefore would be reviewed under the Program.

1. Progress in Addressing Financial Problems

As of July 2003, 127 of the Province's 290 municipalities had been reviewed to determine whether they qualified for assistance through the Debt Relief Program. Seventy-five municipalities have received financial assistance while 52 municipalities have received non-financial assistance in restructuring their debt. Non-financial assistance would include advice relating to: debt refinancing and restructuring; increasing tax collection; preparation of financial plans; and preparation of monthly reports to councils. Information on the assistance provided is outlined in Figure 2.

Figure 2

Department of Municipal and Provincial Affairs
Classification of Municipalities
July 2003

Ratio Range June 1997 %	Total Municipalities	Financial Assistance		Non-Financial Assistance	Assessments in Progress	Municipality not assessed for assistance
		#	(Millions)			
> 65.00	9	5	$ 4.8	1	3	-
60.01 - 65.00	7	5	2.4	0	2	-
55.01 - 60.00	10	7	3.4	1	2	-
50.01 - 55.00	13	10	6.3	1	2	-
45.01 - 50.00	26	17	14.8	6	3	-
40.01 - 45.00	27	9	3.5	10	6	2
35.01 - 40.00	28	10	5.3	16	2	-
30.01 - 35.00	21	6	2.6	10	2	3
Sub-total	141	69	43.1	45	22	5
25.01 - 30.00	28	4	3.1	3	2	19
20.01 - 25.00	16	1	0.5	2	2	11
20.00 or less	105	1	0.1	2	-	102
Sub-total	149	6	3.7	7	4	132
Total	**290**	**75**	**$ 46.8**	**52**	**26**	**137**

Source: Department of Municipal and Provincial Affairs

Our review of the Department's progress in addressing the financial condition of the estimated 170 municipalities identified in 1997 to be reviewed under the Debt Relief Program identified the following:

- As of July 2003, 39 months after the Department's target date of 31 March 2000 to prepare a plan and provide the necessary assistance for all 170 municipalities, only 114 (69 - financial assistance plus 45 - non-financial) of the 141 municipalities meeting the 30% debt servicing cost to revenue ratio identified in 1997 had been reviewed and assisted. Of the remaining 27 municipalities in this category, 22 had reviews at various stages of completion while 5 have not been reviewed.

- 13 municipalities were reviewed and assisted (6 - financial assistance plus 7 - non-financial) even though they did not meet the 30% debt servicing cost to revenue ratio identified in 1997. In addition, 4 of the 26 reviews in progress at July 2003 related to municipalities which, in 1997, had a debt servicing cost to revenue ratio of less than 30%.

  Of the 6 municipalities which received financial assistance, 3 still had a debt servicing cost to revenue ratio of less than 30% when they received assistance.

  Of the 7 municipalities which received non-financial assistance, 1 still had a debt servicing cost to revenue ratio of less than 30% when they received assistance. Furthermore, there was no information on file for 4 of the 7 municipalities to determine their debt servicing cost to revenue ratio at the time of assistance.

- Program Guidelines indicate that the debt servicing cost to revenue ratios will be the basis for targeting municipalities for review. Although the Department determined the debt servicing cost to revenue ratios in 1997 to identify which municipalities would be reviewed for assistance under the Program, this information has not been updated since that time. Instead, the Department concentrates on NLMFC arrears and requests from municipalities seeking assistance. As a result, the Department has not identified which municipalities currently meet the debt servicing cost to revenue criterion necessary to prioritize reviews and determine eligibility for assistance.

- Although reviews in progress in July 2003 have identified that the municipalities will require debt relief funding of approximately $9 million, there was no Program funding in the approved 2003-04 budget. Furthermore, a request for more funding for 2003-04 to continue the Debt Relief Program was deferred by Treasury Board.

2. Program Guidelines

The Department has developed draft guidelines for the Debt Relief Program. Our review of compliance with these guidelines disclosed the following:

- Program Guidelines require that priority be given to the municipalities with the highest debt servicing cost to revenue ratios. However, municipalities were not reviewed in this order. For example, of the 30 municipalities identified with the highest debt servicing costs to revenue ratio in 1997, there are 7 municipalities where reviews are currently in progress; however, they still have not entered into contracts for debt relief. The initial 1997 arrears for these municipalities totalled $200,000. As of 31 July 2003, the arrears for these same municipalities totalled $2 million.

- Program Guidelines provide for negotiation and "*...acceptance of an Action Plan that will permit the municipality to operate in a manageable financial environment that will provide stability in its financial affairs.*" Our review indicated that future infrastructure requirements of municipalities were not being addressed in the action plans. As a result, significant related financial commitments, which could impact on the future stability of the municipality, have not been factored into these plans.

- Program Guidelines require that the Debt Relief Program Review Committee include representatives from the Department of Municipal and Provincial Affairs and the Department of Finance. This Committee is responsible for reviewing and approving negotiated settlements as well as ensuring that the Program objectives are met, issues are resolved, progress reports are reviewed and that guidance and direction is provided.

  Although the Committee reviews summary information on funding distribution, there was little evidence that the Debt Relief Program Review Committee was ensuring Program objectives were being met, whether progress reports on Program objectives were being prepared and reviewed, and whether adequate guidance and direction was being provided.

- The Minister of Finance is required to give final approval of allocations under the Debt Relief Program before the agreements are signed by either the municipality or the Minister of Municipal and Provincial Affairs. For 8 of 10 assistance agreements reviewed, the agreements were signed by the municipality and the Minister of Municipal and Provincial Affairs before they were approved by the Minister of Finance.

3. Program Monitoring and Reporting

In addition to providing assistance, the Department established a process to monitor compliance with the assistance agreements. The objective was to prevent a recurrence of financial difficulty for the municipality. Our review indicated that the Department was not complying in all instances with the procedures established to monitor municipalities for compliance with assistance agreements. For example:

- Inspection targets are to be established by regional offices each year and approved by the Assistant Deputy Minister.

  Departmental official indicated that inspection targets were not established by regional offices and approved by the Assistant Deputy Minister for any municipalities assisted under the Program.

- An initial inspection is to be carried out not later than one year from the date of the agreement and annually thereafter.

  Initial inspections are not carried out for all municipalities within one year of the agreement date and annually thereafter. For the 17 municipalities that entered into assistance agreements during 2001-02, 8 were not inspected as of July 2003. In addition, of the 9 municipalities that had been inspected at that time, 4 of these inspections occurred in excess of one year of the agreement date and therefore was still not in compliance with monitoring requirements.

- At 31 July 2003 there were 7 municipalities which, although had received financial assistance, were in arrears. We found that there were 5 municipalities which were not inspected in accordance with policy. In these cases, 4 municipalities had never been inspected while 1 was inspected after the required date.

- A quarterly report is to be provided to the Assistant Deputy Minister outlining non-compliance and action to be taken.

  Quarterly reports, outlining the status of instances of non-compliance, are not being provided to the Assistant Deputy Minister. Furthermore, action plans are not always developed to outline how instances of non-compliance are to be addressed.

  We found instances of non-compliance with the agreement in 4 of the 10 municipalities reviewed relating to such things as purchasing capital items without Departmental approval and not implementing tax increases. However, although these 4 municipalities were required to prepare a total of 7 action plans to deal with the non-compliance matters, only 1 was prepared.

2.30 Debt Relief Program

Recommendation

The Department should ensure that the Debt Relief Program is administered in accordance with Program Guidelines and that progress towards program objectives is monitored and reported.

Department's Response

Report Item: In your conclusion you note that: "In May 1999, the Department estimated that it would complete its review of the 170 municipalities by 31 March 2000. As of July 2003, 39 months after the Department's target date of 31 March 2000.....only 114 had been reviewed and assisted".

Response:

Although that target date is in the Charter, the Department soon realized in the early stages of the Program that this target date was unrealistic given the amount of work required to do financial analyses on these municipalities and availability of staff to dedicate to the Program.

Report Item: In your conclusion you indicate: "13 (municipalities) were reviewed and assisted even though they did not meet the 30% debt servicing cost to revenue ratio identified in 1997".

Response:

You should note from the review of these municipalities that when they were reviewed by the Debt Relief Program they did, in fact, exceed the 30% debt servicing ratio. It was anticipated that additional municipalities would fall into arrears to Newfoundland and Labrador Municipal Financing Corporation (NLMFC) and exceed the 30% debt servicing ratio as Municipal Operating Grants were reduced and Water and Sewer payments increased. Also, NLMFC arrears was a consideration for review and assessment.

Report Item: In your conclusion you indicate: the list of servicing ratios in 1997 "has not been updated".

Response:

By nature the list is a moving target but with the knowledge of staff and other reporting mechanisms amendments are made to our status reports as necessary.

2.30 Debt Relief Program

Report Item: In your conclusions, you state that: " the financial analysis and resulting agreements with municipalities did not address the future capital works and funding requirements ".

Response:

It was never intended that future capital works and funding requirements be addressed as a part of the review. Our review and the tax rates that were to be imposed by the municipalities was intended to provide revenues to sustain current levels of service. Future servicing requirements were to be addressed through increased taxes and other financial considerations that would enable the municipalities to meet their new debt. Also, our capital works cost sharing agreements give consideration to the level of debt and what cost sharing ratio between the province and municipality is affordable.

Report Item: You also indicate in your conclusion that monitoring and reporting is inadequate and that inspection targets were not established, annual inspections were not performed subsequent to assistance being provided, action plans addressing non-compliance with agreements were not being prepared and quarterly reports outlining the status of incidents of non-compliance are not provided to the Assistant Deputy Minister.

Response:

Staffing issues have caused the Department some minor concern with respect to monitoring and reporting. However, because our regional staff are familiar with municipalities within their jurisdictions, efforts are concentrated on those for which we have the greatest level of concern. Of the 127 reviewed thus far, seven municipalities have gone into arrears on their debt payments. Our regional offices are working with these municipalities to bring about corrective action.

Report Item: Your report continues to refer to the 30% debt servicing ratio as being the criteria with respect to targeting municipalities to be reviewed.

Response:

However, if you review Section 1(2) of the Charter in its entirety, it is clear that in addition to targeting municipalities that spend more than 30% of their municipal revenue on debt servicing, consideration was also given to municipalities who were in arrears to Newfoundland and Labrador Municipal Financing Corporation (NLMFC). Further, if you refer to the Program Guidelines, the criteria for municipalities to be considered *under the program includes three conditions: (a) those municipalities whose debt ratio is 30% or more (debt ratio is calculated at debt payments as a percent of local revenue plus municipal operating grant, (b) those municipalities which are in arrears to NLMFC, and (c) the municipalities whose water and sewer infrastructure is incomplete, extenuating circumstances prevent completion and the associated debt is unreasonable considering the minimal benefit to the overall municipality.*

In summary, the department is following the program guidelines and reporting structure it has established. Because of departmental operating requirements and demands on staff, there may be some minor departure from the intended process. However, because of the extensive knowledge of our regional staff with regards to municipalities within their jurisdictions, we are able to use other checks and balances to be aware of the progress of municipalities reviewed under the Debt Relief Program. The seven municipalities that you report which had received financial assistance and are currently in arrears on payment of their debt are being addressed through our regional offices and our staff are working with these municipalities to take corrective action. The department would deem that if only 5% of the municipalities that we have assisted in restructuring their debt are failing in their compliance then the program has been successful in meeting its objectives. The Department anticipates that even these communities will become financially stable as the reasons for their slippage is identified and corrected.

2.31 Disinfection Assistance Program

Introduction

In June 2000, the Department of Health and Community Services introduced new Microbiological Water Quality Standards as a result of concerns around the quality of drinking water in the Province. As a result of the new standards, there was an immediate increase in the number of boil water advisories in the Province. Figure 1 shows the boil water advisories in effect both before the new standards and after the new standards.

Figure 1

Department of Municipal and Provincial Affairs
Boil Water Advisories in Newfoundland and Labrador

	June 2000	May 2001
Number of water supplies subject to boil water advisories	115	322
Number of municipalities operating affected water supplies	104	223
Approximate number of people affected	32,000	83,000

Source: Department of Environment

In the 2001-02 Budget Speech it was announced that a Safe Drinking Water Initiative would be undertaken to assist municipalities under boil water advisories by providing 100% funding up to a maximum of $100,000 for the installation or upgrading of water disinfection systems. As a result, a multi-year Disinfection Assistance Program at the Department of Municipal and Provincial Affairs was introduced effective April 2001 to improve the quality of drinking water in the Province.

When funding is approved, the municipality obtains a bank loan to finance the project. When the project has been completed, the bank loan is refinanced through the Newfoundland and Labrador Municipal Financing Corporation and the Province assumes financing costs for its portion of the loan.

The value of projects approved by the Department since the Program was introduced is outlined in Figure 2.

2.31 Disinfection Assistance Program

Figure 2

Department of Municipal and Provincial Affairs
Disinfection Assistance Program Approved Projects

	2001-02	2002-03	Total
Canada / Newfoundland Infrastructure Program	$8,249,764	$4,415,172	$12,664,936
Municipal Capital Works Program	749,677	407,320	1,156,997
Total	$8,999,441	$4,822,492	$13,821,933

Source: Department of Municipal and Provincial Affairs

Scope and Objectives

We completed our review of the Disinfection Assistance Program in September 2003. The objective of the review was to determine whether the Department of Municipal and Provincial Affairs is adequately managing the Disinfection Assistance Program and in particular whether:

- adequate policies and procedures are in place for the administration of the program; and
- the Department has complied with these policies and procedures.

Our review covers the two fiscal years ending 31 March 2002 and 31 March 2003.

Conclusions

The Disinfection Assistance Program was introduced as a part of the Safe Drinking Water Initiative in 2001. The purpose of the program was to assist municipalities currently under a boil water advisory by providing them with 100 percent funding up to a maximum of $100,000 to install or upgrade water disinfection systems.

The Department is not complying with program guidelines. We found that:

- 5 municipalities were approved for funding totalling approximately $1.2 million even though they were not subject to a boil water advisory.

- 53 municipalities were approved for full funding in excess of the $100,000 limit, the total funding approved for these 53 municipalities totalled $8.7 million. The $100,000 limit was announced by Government in the House of Assembly during the Budget Speech. However, the Department, without authority, increased the $100,000 limit for purchases related to the installation costs of primary disinfection systems. Therefore, we applied the $100,000 limit as announced in the House of Assembly, and as referred to by the ministers of both Municipal and Provincial Affairs, and Environment, subsequent to the Department's revision.
- 6 municipalities were approved for funding totalling approximately $1.2 million for more than one project.
- 3 municipalities were approved for funding of approximately $94,000 for ineligible projects.
- Project files did not always contain the required signed agreements from the municipality.

Findings and Recommendation

Background

In June 2000, the Department of Health and Community Services introduced new Microbiological Water Quality Standards as a result of concerns around the quality of drinking water in the Province. As a result of the new standards, there was an immediate increase in the number of boil water advisories in the Province.

In an attempt to address the water quality issues in the Province, Government introduced a multi-year Disinfection Assistance Program at the Department of Municipal and Provincial Affairs. The Program was introduced effective April 2001. Information on the number of boil water advisories and the number of municipalities and people affected is outlined in Figure 3.

2.31 Disinfection Assistance Program

Figure 3

Department of Municipal and Provincial Affairs
Boil Water Advisories in Newfoundland and Labrador

	May 2001	March 2002	September 2002	March 2003	September 2003
Number of water supplies subject to boil water advisories	322	284	302	252	284
Number of municipalities operating affected water supplies	223	190	193	168	194
Approximate number of people affected	83,000	74,000	66,500	55,000	77,000

Source: May 2001 data - Government's Source to Tap Report
Department of Environment's database

As the Figure shows, while there are a significant number of boil water advisories and people still affected, there have been reductions in the number of advisories.

The reasons for the issuance of boil water advisories vary. Figure 4 provides information on the reasons for the 284 boil water advisories outstanding as at September 2003. As the Figure shows, there were 302 reasons supporting the 284 boil water advisories. The majority are issued as a result of a lack of disinfectant or other disinfectant problems. Boil water advisories are also commonly issued when microbiological testing yields unsatisfactory results.

Figure 4

Department of Municipal and Provincial Affairs
Number and Reason for Boil Water Advisories
September 2003

Reason Code	Reason Description	Reason for Boil Water Advisories	% of Total
A	Water Supply has no disinfection system.	81	26.8
E2	No free chlorine residual detected in the water distribution system.	72	23.8
E1	Water entering distribution system or facility, after a minimum 20 minute contact time does not have a free chlorine residual of at least 0.3mg/l or equivalent CT value.	38	12.6
F3	Total coliforms detected and confirmed in repeat sample.	25	8.3
C1	Disinfection system is off, due to maintenance or mechanical failure.	24	8.0
F2	Total coliform or Escherichia coli (E. coli) detected and repeat samples cannot be taken as required.	13	4.3
B1	Chlorination system is turned off by operator, due to taste.	11	3.6
D1	Water distribution system is undergoing maintenance or repairs.	11	3.6
F5	Escherichia coli (E. coli) detected and confirmed in repeat sample.	7	2.3
F4	Escherichia coli (E. coli) detected in an initial sample(s) is considered extensive and the water system has other known problems.	5	1.7
B3	Chlorination system is turned off by operator, due to lack of funds to operate.	5	1.7
C2	Disinfection system is off, due to lack of chlorine or other disinfectant.	3	1.0
B2	Chlorination system is turned off by operator, due to perceived health risks.	3	1.0
D2	A cross connection is discovered in the distribution system.	2	0.7
H	Waterborne disease outbreak in the community.	1	0.3
F7	Protozoa detected (eg, Giardia, Cryptosporidium).	1	0.3
Total		302	100.0

Source: Department of Environment - Provincial Boil Water Advisory Listing

2.31 Disinfection Assistance Program

Our review indicated that some of these boil water advisories had been in effect for quite some time. Figure 5 provides information on the age of the 284 boil water advisories in effect as at September 2003.

Figure 5

Department of Municipal and Provincial Affairs
Age of Boil Water Advisories
As at September 2003

Age of Boil Water Advisory	Number of Water Sources	% of Water Sources
Less than 6 months	55	19.4
6 months - 1 year	15	5.3
1-2 years	20	7.0
2-3 years	32	11.3
3-4 years	88	31.0
4-5 years	7	2.4
5-10 years	34	12.0
10-15 years	28	9.8
Greater than 15 years	5	1.8
Total	284	100.0

Source: Department of Environment - Provincial Boil Water Advisory Listing

As Figure 5 shows, 162 of the 284 advisories (57%) have been in effect for over three years.

Program Guidelines

When the Program was introduced in April 2001, the Department developed guidelines that outlined eligibility criteria for the Program. The eligibility criteria was announced in the House of Assembly during the Budget Speech. Consistent with the criteria announced in the House of Assembly, the guidelines indicated that:

- a municipality must have a boil water advisory in effect;
- $100,000 is the maximum the Province will provide to a municipality;
- funding will be on a one time basis; and
- eligible projects only include new disinfection equipment, intake improvements, relocation of chlorination systems, swabbing or pigging of waterlines, chlorine booster stations, water treatment facilities and any other capital works that will improve water quality and disinfection efficacy.

The $100,000 limit was announced by Government in the House of Assembly during the Budget Speech in March 2001. However, the Department, in April 2002, without authority, increased the $100,000 limit for purchases related to the installation costs of primary disinfection systems. We also found that the Minister of Municipal and Provincial Affairs, in a news release dated 13 June 2002, referred to the $100,000 limit. Furthermore, in a news release on 18 September 2002, the Minister of Environment referred to the $100,000 limit. Therefore, we applied the $100,000 limit as announced in the House of Assembly and as referred to by the two ministers.

In addition to the $100,000 allowed under the Program, amounts in excess of this amount can be funded under the Department's capital works programs on a cost-shared basis.

Our review of the 130 municipalities which have been approved for funding up to 31 March 2003 indicated that 53 municipalities have been approved for amounts greater than the $100,000 limit. Information on approval amounts greater than $100,000 is outlined in Figure 6 and shows that 12 municipalities were approved for amounts greater than $200,000, while the remaining 41 were approved for amounts between $100,001 and $200,000.

2.31 Disinfection Assistance Program

Figure 6

Department of Municipal and Provincial Affairs
Allocation of Funding

	Number of municipalities	%	Approved Funding	%
Total funding greater than $200,000 per municipality	12	9.2	$3,233,808	23.4
Total funding between $100,001 and $200,000 per municipality	41	31.6	5,466,175	39.5
Total funding greater than $100,000 per municipality	53	40.8	8,699,983	62.9
Total funding less than or equal to $100,000 per municipality	77	59.2	5,121,950	37.1
Total funding for all municipalities	130	100.0	$13,821,933	100.0

Source: Department of Municipal and Provincial Affairs

We also selected a sample of 24 of the 130 municipalities approved for funding under the Program from its inception in April 2001 to 31 March 2003 to determine compliance with the Department's guidelines. Information on the 24 municipalities selected for review is provided in Figure 7.

Figure 7

Department of Municipal and Provincial Affairs
Summary of Municipalities Selected for Testing

	Municipality	Serviced Population	Project Description	Approved Amount	Source of Funding
1	Wabana	6,039	Chlorination system improvements	$229,393	CNIP 2001
2	Ming's Bight	435	Water treatment system/building site development and access road upgrade	200,000	CNIP 2001
3	Cox's Cove	829	New gas chlorination system	90,000	CNIP 2002
4	Belleoram	564	Water supply study	45,540	MCWP 2001

2.31 Disinfection Assistance Program

Figure 7 (cont.)

	Municipality	Serviced Population	Project Description	Approved Amount	Source of Funding
5	Bay Roberts	5,200	Chlorination system upgrade	196,000	CNIP 2001
6	Black Tickle	92	Emergency water supply and quality improvements	140,000	MCWP 2001
			One year operation and maintenance	28,000	MCWP 2002
7	Gillams	465	New gas chlorination and filtration system	204,987	CNIP 2001
8	Chance Cove	348	Upgrading two wells	42,613	MCWP 2001
			Water supply upgrading	283,000	CNIP 2002
9	Isle Aux Morts	988	New water treatment system, Phase II	324,000	CNIP 2001
10	Burin	2,682	Chlorination system upgrade	396,618	CNIP 2002
11	Placentia	5,013	Upgrade chlorination facility	265,500	CNIP 2001
12	Hant's Harbour	519	New chlorination system	229,900	CNIP 2002
13	Centreville-Wareham-Trinity	1,328	Chlorination system in Trinity	91,425	CNIP 2001
			Pump house in Centreville	30,360	CNIP 2001
			Pump house chlorination system in Centreville	89,700	CNIP 2001
			Water supply intake improvement	85,000	CNIP 2002
14	Port Saunders	876	Relocation of intake	54,153	CNIP 2001
			Improve chlorination system	23,000	MCWP 2001
15	Heart's Desire	339	Chlorination system upgrade	100,000	CNIP 2001 CNIP 2002
16	Parson's Pond	530	Upgrade water supply, new pumps and chlorination system	82,261	CNIP 2001
			Maintenance assurance manual	20,000	MCWP 2002
17	Southern Harbour	635	Chlorination system upgrade	162,000	CNIP 2001 CNIP 2002

2.31 Disinfection Assistance Program

Figure 7 (cont.)

	Municipality	Serviced Population	Project Description	Approved Amount	Source of Funding
18	Norris Point	850	New screen chamber, chlorination building and system	105,525	CNIP 2001 CNIP 2002
19	Cupids	758	Pump house upgrade and chlorination booster system	60,000	MCWP 2002
20	Happy Adventure	285	Upgrade chlorination and screen chamber	109,940	CNIP 2001
			New ammonia injection building	75,635	CNIP 2002
21	Salvage	240	Installation of filter media and chlorination booster system	86,360	CNIP 2001 CNIP 2002
22	Cavendish	360	Replacement of existing pump house and associated equipment	50,000	CNIP 2002
23	Pool's Cove	241	Chlorination system upgrade	60,000	CNIP 2001
24	Victoria	1,849	Chlorination system upgrade	287,524	CNIP 2001
				$4,248,434	

Source: Department of Municipal and Provincial Affairs

Our review indicated that the Department is not always complying with the Program guidelines. For example:

- 5 municipalities (#s 5,10,20,21,24) had funding approved totalling $1.2 million even though there were no boil water advisories in effect at that time;
- 14 of the municipalities (included in the 53 in Figure 6) had funding approved greater than $100,000;
- 6 municipalities (#s 6,8,13,14,16,20) had funding approved for more than one project; and
- 3 municipalities (#s 4,6,16) had funding approved for ineligible projects.

2.31 Disinfection Assistance Program

Funding Agreements

When a project is approved, the Department requires the municipality to provide written confirmation within 20 days. In addition, each municipality is required to sign an agreement outlining that it will purchase and maintain equipment to measure the quality of its water, make reasonable efforts to have its water or disinfection system monitored and operated by certified personnel, and that it will adopt a maintenance assurance manual.

Our review of 24 municipalities indicated that the Department does not always have the required written confirmations and signed agreements in place. For example, for 10 of the 24 municipalities, there were documents missing as follows:

- 2 did not have either a written confirmation or signed agreement.
- 6 did not have a written confirmation.
- 2 did not have a signed agreement.

Recommendation

The Department should comply with its guidelines for the Disinfection Assistance Program.

Department's Response

The Department is in general agreement with the Auditor General's recommendation but would also note that:

(1) Most projects (over 90%) were completed under the Canada-Newfoundland and Labrador Infrastructure Program which provides a 33% contribution from the Federal Government. When total project costs are reduced by 33% to reflect the Federal contribution, the Provincial contribution is within the $100,000 guideline in most cases.

(2) Situations did arise where completion of a project did require a Provincial contribution in excess of $100,000. Since increased disinfection assistance was the only option to achieve the safe drinking water objective, the Department did increase its contribution where necessary.

(3) *When the $100,000 guideline was originally proposed, it was anticipated that all projects could be completed within the guidelines. As the program got underway, it became obvious that some exceptions would have to be made for communities with particularly difficult water treatment problems.*

(4) *In a number of instances that were more than one water supply in the town which required larger than $100,000 contribution but less than $100,000 per source.*

(5) *The introduction of the program drastically increased the demand for disinfection products and thereby increased the price of supply and installation due to limited competition.*

2.32 Newfoundland and Labrador Housing Corporation Non-Profit Rental Social Housing Units

Introduction

The Newfoundland and Labrador Housing Corporation (the Corporation) operates under the authority of the *Housing Corporation Act*. The purpose of the Corporation is to provide cost-effective housing and related programs for the benefit of the residents of the Province with priority given to those most in need. Its affairs are governed by a Board of Directors appointed by the Lieutenant-Governor in Council. The Corporation employs approximately 425 full time and seasonal employees and has seven regional offices throughout the Province: St. John's; Marystown; Goose Bay; Gander; Corner Brook; Stephenville; and Grand Falls-Windsor.

Prior to 1997, Canada Mortgage and Housing Corporation (CMHC) cost shared in the operations of the rental housing and home-owner programs. In 1997, the Corporation and CMHC entered into the Canada-Newfoundland Social Housing Agreement which transferred all responsibility for operating and maintaining the rental units and home-owner programs to the Corporation. Under this Agreement, CMHC provides a predetermined annual level of funding on a decreasing basis up to and including the year 2038.

In 2002-03, the Corporation had expenses totalling $101.8 million relating to its subsidized rental housing and home-owner programs. The most significant housing assistance program administered and maintained by the Corporation is the Non-Profit Rental Social Housing Program.

In 2002-03, the Non-Profit Rental Social Housing Program had expenses of $49.6 million (including $25.9 million in amortization). Included in the $49.6 million is $11.9 million related to maintenance, and modernization and improvement expense. This program provides seniors, non-elderly singles and low-income families with suitable, affordable housing. Rental costs do not exceed 25-30% of the monthly household income. At 31 March 2003, non-profit rental social housing units were reported on the Corporation's financial statements at a cost of $277 million and a net book value of $238 million.

As at 31 January 2003, there were 5,756 non-profit rental social housing units in 2,236 buildings directly administered by the regional offices throughout the Province. As outlined in Figure 1, 52% of the portfolio is over 25 years of age. The units were constructed between 8 and 54 years ago.

2.32 Newfoundland and Labrador Housing Corporation Non-Profit Rental Social Housing Units

Figure 1

Newfoundland and Labrador Housing Corporation
Age Range of Non-Profit Rental
Social Housing Units
31 January 2003

Region	Units Years of Age					Total Units
	Under 10	10-19	20-24	25-30	Over 30	
St. John's	6	742	827	825	858	3,258
Marystown	3	32	-	63	241	339
Goose Bay	11	118	9	154	-	292
Gander	9	82	64	63	46	264
Corner Brook	16	193	224	122	251	806
Stephenville	12	98	67	127	-	304
Grand Falls- Windsor	8	108	123	190	64	493
Total units	65	1,373	1,314	1,544	1,460	5,756
% of total units	1%	24%	23%	27%	25%	100%

Source: NLHC Rental Management System

Scope and Objectives

We completed our review of the Non-Profit Rental Social Housing Program in April 2003. The objectives of the review were to assess whether the Corporation:

- monitors the condition of the non-profit rental social housing portfolio;
- determines and carries out an appropriate maintenance program;
- has addressed the long-term capital needs for the non-profit rental social housing portfolio, including required expenditures, planned expenditures, funding sources for the planned expenditures and capital work priorities; and
- has addressed the current demand for housing.

2.32 Newfoundland and Labrador Housing Corporation Non-Profit Rental Social Housing Units

Conclusions

The Corporation's non-profit rental social housing units are in need of significant repairs. At 31 January 2003, 3,004 or 52% of the Corporation's 5,756 non-profit rental social housing units were in excess of 25 years old. In 2001, the Corporation prepared a preliminary cost estimate totalling $76.7 million relating to modernization and improvements of these units. Although the Corporation is undertaking a detailed review of each building to determine a more accurate cost estimate and when the funding will be required, at 31 January 2003, 66% of the buildings had not been reviewed. As a result of the reviews completed, the Corporation has identified that in excess of $29 million will need to be spent on these properties. The Corporation has also determined that, of this $29 million, $13 million is rated as critical and in need of immediate attention. While Corporation officials have discussed funding requirements with the Provincial Government, no source has yet been identified to fund the required repairs.

The Corporation does not have a preventative maintenance program in place to identify and correct deficiencies before they become larger problems. The Corporation does have a budget for repairs and maintenance which annually averages $8.2 million; however, the majority of maintenance work is directed to critical repairs on a day-to-day basis.

The Corporation does not have a complete long-term plan currently in place which addresses the nature, amount, timing and funding source of future capital expenditures. The Corporation has undertaken a number of initiatives in an attempt to identify future capital funding requirements for its non-profit rental social housing units; however, it has still not gathered sufficient information required for a complete long-term plan. Furthermore, although the Corporation does have a budget for modernization and improvements averaging $3.6 million per year over the past five years, based on the information that the Corporation has gathered relating to required capital costs, this funding is considered to be inadequate. The Corporation has indicated that the lack of funding has led to "*... the detriment of tenant living conditions ....*".

The Corporation has indicated that it is presently experiencing a high demand for one and two bedroom units while the need for four and five bedroom units has declined. This demand is the result of demographic changes such as an aging population, more single parents and fewer children per household. As a result, vacancies in four and five bedroom units are becoming increasingly difficult to fill without over-housing the prospective tenants. At 11 December 2002, 2,026 units or 35% of the 5,756 rental units were occupied by families smaller than the unit's capacity.

2.32 Newfoundland and Labrador Housing Corporation Non-Profit Rental Social Housing Units

Findings and Recommendations

Condition of the Non-Profit Rental Social Housing Portfolio

A major strategic issue identified by the Corporation in its Corporate Plan of February 2000 is the effective property management of the social housing stock to ensure design, structural and aesthetic integrity while meeting changing client needs and community expectations. The Plan indicates that aggressive modernization efforts are required to address issues of age and suitability of the existing housing stock.

In 2000-01, the Corporation set up a task force to look at required modernization and improvement for all non-profit rental social housing units throughout the Province. In January 2001 the task force, based on a sampling of units and their knowledge, determined the repairs and improvements that were necessary relating to public non-profit rental social housing within the next 7 years. The task force produced a report which identified a need for $76.7 million in expenditures over this 7 year period.

The task force recommended that the Corporation complete a condition report on each of its buildings which house the non-profit rental social housing units to determine a more complete and accurate cost estimate. At 31 January 2003, the Corporation had 2,236 buildings which housed 5,756 non-profit rental social units. The task force established criteria that would have to be considered in conducting the condition reports. Our review indicated the following:

- The task force report did not provide any details as to how much funding would be required in each of the seven years; instead, they only determined the total of $76.7 million.
- Although the task force recommended in January 2001 that condition reports be completed for all buildings with a rating to establish priority for work, at 31 January 2003, the Corporation had only completed condition reports on 755 (i.e. 34%) of the 2,236 buildings containing the 5,756 rental units.

  Furthermore, of the 755 condition reports completed, only 229 (i.e. 30.3%) were detailed evaluations representing an in-depth evaluation of the building condition in accordance with the criteria established by the task force. These reviews included building component inspections, examination of at least 40% of units contained in the building, review of maintenance history and tenant interviews. These condition reports result in a well supported and reasoned estimation of the expenditures required on the unit.

The remaining 526 (i.e.69.7%) were basic evaluations representing a preliminary level evaluation of the building condition based on the inspectors' knowledge of the building using information that is already available. Therefore, cost estimates for units in these condition reports are not as well supported and reasoned.

- Based on the 755 condition reports completed, in excess of $29 million in funding is required to bring the condition of the Corporation's non-profit rental social housing portfolio identified in these condition reports up to standard. Based on the condition reports completed, the $76.7 million estimated by the task force in 2001 is not an unreasonable estimate. Details of the estimated $29 million by location and urgency is outlined in Figure 2.

Figure 2

Newfoundland and Labrador Housing Corporation
Non-Profit Rental Social Housing Portfolio
Condition Report Findings
31 January 2003

Region	Immediate Repairs	Repairs Needed in Near Future	Repairs needed within 5 years	Total
St. John's	$ 7,559,257	$ 5,249,398	$ 2,421,905	$ 15,230,560
Marystown	349,061	1,364,575	328,260	2,041,896
Goose Bay	197,468	600,108	8,200	805,776
Gander	327,455	655,265	336,900	1,319,620
Corner Brook	1,832,610	1,634,185	171,610	3,638,405
Stephenville	628,340	897,780	762,190	2,288,310
Grand Falls - Windsor	2,405,003	1,058,890	243,220	3,707,113
Total	**$ 13,299,194**	**$ 11,460,201**	**$ 4,272,285**	**$ 29,031,680**

Source: NLHC Condition Report Database

2.32 Newfoundland and Labrador Housing Corporation Non-Profit Rental Social Housing Units

As Figure 2 shows, the Corporation has identified that approximately $13 million is required on an immediate basis in order to complete the required repairs on the 755 buildings for which condition reports have been prepared. The Corporation has not attempted to project the required immediate repair costs on the remaining 1,481 buildings. It is likely, however, that these repair costs will be quite significant.

While Corporation officials have discussed funding requirements with the Provincial Government, no source has yet been identified to fund the required repairs.

Maintenance Management

During 2002-03, the Corporation spent $8.2 million in recurring maintenance on its non-profit rental social housing portfolio. In addition, during the year the Corporation spent a further $3.8 million in modernization and improvements for a total of $12 million. Figure 3 provides information on these expenditures during the past five years.

Figure 3

Newfoundland and Labrador Housing Corporation
Non-Profit Rental Social Housing Units
Maintenance Costs and Modernization and Improvement Costs
Years Ended 31 March

	1999	2000	2001	2002	2003
Average # of units	5,899	5,876	5,811	5,797	5,773
Annual Maintenance Costs	$9,243,915	$8,286,420	$8,001,575	$7,377,777	$8,158,876
Average cost per Unit	**$1,567**	**$1,410**	**$1,377**	**$1,273**	**$1,413**
Annual Modernization and Improvement Costs	$4,165,530	$3,850,375	$2,784,455	$3,537,655	$3,754,756
Average cost per Unit	**$706**	**$655**	**$479**	**$610**	**$650**
Total Costs	$13,409,445	$12,136,795	$10,786,030	$10,915,432	$11,913,632
Average total costs per Unit	**$2,273**	**$2,065**	**$1,856**	**$1,883**	**$2,064**

Source: NLHC Financial Information Systems

Note: Modernization and improvement expenditures have been reduced by the amortization related to the $5 million capital expenditure for the years 2001, 2002, and 2003

2.32 Newfoundland and Labrador Housing Corporation Non-Profit Rental Social Housing Units

Given the required repairs identified by the Corporation and the increasing age of the rental units, it would be expected that maintenance costs would increase or at least remain at a constant level. However, as Figure 3 shows, average maintenance costs per unit declined each of the last four years prior to 2003. Even with the increase in 2003, the average maintenance cost in 2003 is 11% lower than it was in 1999. The Figure also shows that average modernization and improvement costs in 2003 are 8% lower than they were in 1999.

A review of maintenance activity identified the following:

- A new maintenance system implemented during 2000 captures information on such things as the total number of work orders completed, total time taken to complete work orders, time spent on meetings, travel, and leave. Although this new system provides information on labour time and costs, no standards or benchmarks have been established to provide a basis to monitor work completed. As a result, the Corporation cannot readily identify areas where improvements could be made to its maintenance activities. The current system has been mainly used to compile labour and materials costs on a project basis.

- Included in the total $10.9 million spent on maintenance, and modernization and improvement in 2002, is $5.6 million in labour costs or 51% of the $10.9 million. As part of the Corporation's review of maintenance activities in January 2002, it was identified that the amount of sick leave taken by maintenance staff averaged 13.1 days for the year ended 30 June 2001. The cost of this sick leave, estimated to be approximately $284,000, is included in the maintenance and modernization and improvement costs.

- Although the Corporation spends approximately $11.8 million annually for repairs and maintenance, and modernization and improvement, it does not have a preventative maintenance program in place to identify and correct deficiencies before they become larger problems. Currently, the majority of maintenance work is directed to critical repairs on a day-to-day basis, including reacting to requests made by tenants. A preventative maintenance program for the non-profit rental social housing portfolio could contribute to an increased service life and lower both maintenance, and modernization and improvement costs over the portfolio's life cycle.

2.32 Newfoundland and Labrador Housing Corporation Non-Profit Rental Social Housing Units

- The Corporation does not adequately monitor the allocation of costs between maintenance and capital costs for modernization and improvement. We reviewed expenditures charged to theses two accounts and found that there were similar expenses charged to both. As a result, there are inconsistencies in the categorization of expenditure transactions produced by the Corporation's management information system. Therefore, it is difficult for the Corporation to determine whether it is spending in accordance with its plans.

- There is no information readily available to track either modernization and improvement or maintenance costs on units (or projects) over the years. Officials informed us that, due to the cost of storing information, the Financial Administration System has only 4 years of data available at any time. All data in excess of 4 years would be available in hard copy only and then it only goes back to 1992.

  Prior to 1992 there would be no practical way to compile accurate and complete information as to the modernization and improvement or maintenance costs that were charged to rental properties since construction. Therefore, there is no tracking of the useful life of such items as windows, doors, and roofs to determine when such items may have to be replaced. When repairs or replacement is required for these components, it is difficult without having a complete history of all work completed on these items to determine the quality of the product, workmanship, and what impact any preventative maintenance may have had.

Capital Planning and Budgeting

Good management practice requires the preservation of capital assets and the extension of their useful lives through periodic maintenance and modernization and improvements. Therefore, with regard to the Corporation's non-profit rental social housing units, it is important to periodically inspect the condition of the units and establish priorities for needed repairs and modernization and improvement. Since capital repairs often result in major expenditures, it is also good practice to establish long-term plans and budgets for the nature, amount and timing of future capital expenditures.

2.32 Newfoundland and Labrador Housing Corporation Non-Profit Rental Social Housing Units

Although the Corporation has undertaken a number of initiatives in an attempt to identify future capital funding requirements for its non-profit rental social housing units, there is no complete long-term plan currently in place which addresses the nature, amount and timing of future capital expenditures.

In 2001, the Corporation estimated that it would cost $76.7 million over seven years to address all required repairs to its non-profit rental social housing units. During the 2000-01 budget process, the Corporation requested $36 million over five years - (year 1 - $5 million, years 2, 3 and 4 - $8 million and year 5 - $7 million) for the modernization and improvement of its rental social housing units. For 2001, Government approved the $5 million relating to the year 1 request; however, the Corporation had to find this money within its existing funding levels. Furthermore, no funding has been provided to the Corporation since that time relating to the balance of $31 million.

The Corporation has acknowledged that insufficient expenditures on non-profit rental social housing units for repairs and modernization and improvement over the past several years has contributed to the deteriorating condition of its non-profit rental social housing portfolio. In fact, in its 2000-01 capital budget on non-profit rental social housing-modernization and improvement, the Corporation stated that "*...funding for the program has been inadequate. The result has been the postponement of planned modernization and improvement to the detriment of tenant living conditions and the cost of ordinary maintenance. Recent inspections of the portfolio confirm this and indicate that some units are below standards, lack necessary facilities and are not configured to meet demographic demand.*"

Figure 4 outlines the actual expenditures for the past four years on modernization and improvements.

2.32 Newfoundland and Labrador Housing Corporation Non-Profit Rental Social Housing Units

Figure 4

Newfoundland and Labrador Housing Corporation
Non-Profit Rental Social Housing Units
Modernization and
Improvement Expenditures
Years Ended 31 March

Region	1999	2000	2001	2002	2003
St. John's	$1,882,820	$1,786,096	$1,201,289	$1,708,255	$2,411,368
Marystown	201,481	118,014	143,419	406,230	74,661
Goose Bay	261,937	208,661	137,753	4,016	36,085
Gander	305,831	163,949	236,830	471,797	192,581
Corner Brook	576,475	858,506	400,751	537,131	485,395
Stephenville	193,243	215,622	270,745	(5,619)	218,297
Grand Falls-Windsor	743,743	499,527	393,668	415,845	336,369
Total	**$4,165,530**	**$3,850,375**	**$2,784,455**	**$3,537,655**	**$3,754,756**

Source: NLHC Financial Information Systems

As the Figure indicates, since 1999 spending is restricted to less than $4 million annually. The annual provision for modernization and improvement in the operating budget has averaged $3.6 million over the last 5 years.

Allocating these monies to the regions on an annual basis is the only plan that the Corporation currently has in place to address its estimated $76.7 million in required repairs. This estimate was based on these repairs being made over seven years. Given the Corporation's current level of funding, it will take 20 years to complete the required repairs unless other sources of funding are identified. Furthermore, condition reports completed by the Corporation have identified that approximately $13 million is required on an immediate basis to address required repairs in its non-profit rental social housing units.

2.32 Newfoundland and Labrador Housing Corporation Non-Profit Rental Social Housing Units

While Corporation officials have discussed funding requirements with the Provincial Government, no source has yet been identified to fund the required repairs.

Matching Housing Demands to Supply

The demand for non-profit rental social housing varies among the seven regions and is impacted by demographic changes, availability and affordability of private sector rental housing and other socio-economic factors. As shown in Figure 5, as of December 2002, vacancy rates for the Corporation's non-profit rental social housing units range from a low of 1.3% in the Stephenville area to a high of 30.1% in the Marystown area.

Figure 5

Newfoundland and Labrador Housing Corporation
Vacancy Rate of Non-Profit Rental Social Housing Units
11 December 2002

Region	Units	Vacant Units	Vacant for more than 1 Year	Vacancy Rate	Waiting List (31 January 2003)
St. John's	3,258	90	11	2.8%	455
Marystown	339	102	73	30.1%	11
Goose Bay	292	70	28	23.9%	7
Gander	264	13	-	4.9%	38
Corner Brook	806	33	4	4.1%	132
Stephenville	304	4	-	1.3%	33
Grand Falls-Windsor	493	20	6	4.5%	95
Total	**5,756**	**332**	**122**	**5.8%**	**771**

Source: NLHC Rental Management System

2.32 Newfoundland and Labrador Housing Corporation Non-Profit Rental Social Housing Units

Our review identified the following:

- The Corporation's Rental Management System does not provide a history on waiting lists and, as a result, the Corporation cannot readily determine if the number of approved families on waiting lists are increasing or decreasing on an annual basis. Our review identified that, for the entire Province, there were 1,524 applications on file at 31 January 2003 of which 753 were classified as incomplete and awaiting information from the client. Of the 771 applications which were approved and selected, there were 354 on the waiting list for more than 1 year while 165 have been on the waiting list for more than 3 years.

- In three regions - St. John's, Corner Brook and Grand Falls-Windsor, there were rental units vacant in excess of one year even though there were a large number of approved families on the waiting list. Officials indicated that most of the vacant units were in need of major repairs and, therefore, not in a condition to be rented. For example:

    - **St. John's** - of the 11 units which have been vacant for in excess of one year, 8 require major renovations, 2 are being used for storage and 1 is in a low demand area.

    - **Corner Brook** - of the 4 units which have been vacant for in excess of one year, 2 are to be sold, 1 was sold in January 2000 and not removed from the vacancy listing and 1 is in a low demand area.

    - **Grand Falls-Windsor** - of the 6 units which have been vacant for in excess of one year, 2 require major renovations, and 4 are located in a low demand area.

  During the past few years, the Corporation has experienced very low demand for the non-profit rental social housing units located in Marystown and Goose Bay. As a result, there are excessive long-term vacancies.

- The Corporation has indicated that it is presently experiencing a high demand for one and two bedroom units while the need for four and five bedroom units has declined. This demand is the result of demographic changes such as an aging population, more single parents and fewer children per household. As a result, vacancies in four and five bedroom units are becoming increasingly difficult to fill without over-housing the prospective tenants.

2.32 Newfoundland and Labrador Housing Corporation Non-Profit Rental Social Housing Units

As a result of the costs associated with the redesign and upgrades for the larger units to make them into smaller units, the Corporation cannot afford to undertake any such projects. For example, in February 1992, the Corporation identified projects to redesign 757 rental units at an estimated cost of $19.5 million; however, the projects did not proceed because of a lack of funding.

- Figure 6 outlines the Corporation's rental units, number of bedrooms and the family size occupying the units.

Figure 6

Newfoundland and Labrador Housing Corporation
Non-Profit Rental Social Housing Units
Portfolio Composition
11 December 2002

Family Size	Number of Bedrooms					Total Units
	1	2	3	4	5	
1	331	242	478	87	6	1,144
2	32	398	908	157	3	1,498
3	-	120	1,106	134	6	1,366
4	1	30	772	137	5	945
5	-	4	246	87	6	343
6	-	-	47	43	4	94
7	-	-	11	14	2	27
8	-	-	4	1	-	5
9	-	-	-	-	1	1
10	-	-	1	-	-	1
vacant units	7	27	248	46	4	332
Total	**371**	**821**	**3,821**	**706**	**37**	**5,756**

Source: NLHC Rental Management System

2.32 Newfoundland and Labrador Housing Corporation Non-Profit Rental Social Housing Units

As the Figure shows, as at 11 December 2002, there were at least 2,026 families living in units which had more bedrooms than the family size. For example, there were 813 single tenants housed in two bedroom and larger units, 1,068 two person families being housed in three bedroom and larger units, 140 three person families being housed in four bedroom and larger units, and 5 four person families being housed in a five bedroom unit. Therefore, 35% of the rental units are occupied by families smaller than the unit's capacity.

Recommendations

The Corporation should:

- *complete detailed condition reports on all of its non-profit rental social housing units to develop a long-term capital plan which outlines the nature, amount, timing and source of funding;*
- *implement a preventative maintenance program; and*
- *develop a long-term housing accommodation plan to address the effect of demographic changes.*

Corporation's Response

The Corporation has clearly documented the financial challenges associated with capital improvements to its non-profit social housing portfolio. In this context the Corporation, based on solid random-sampling methodology, has also identified the funding parameters to meet this challenge. As noted, however, the Corporation has extremely limited budgetary flexibility given that the income thresholds of its social housing tenants provide little, if any, opportunity for rental income revenues above current levels. Moreover, the province's annual sustaining grant to NLHC cannot fully address these capital requirements.

The Corporation fully recognizes the need to maintain an updated corporate and capital plan to meet this challenge and also fully recognizes the need for detailed condition reports which reflect the portfolio condition. As of November 15, 2003, the Corporation has completed detailed reports on approximately 53 percent of its units. These reports generally confirm the fiscal challenge as initially identified through the random sampling methodology referenced above and will form the basis for the refinement of capital plan options by the Corporation.

2.32 Newfoundland and Labrador Housing Corporation Non-Profit Rental Social Housing Units

The Corporation notes that the ongoing portfolio maintenance challenges reflect, in large measure, two principal considerations: the age of the social housing portfolio and their specific building envelope characteristics. Only 1 percent of the portfolio is under 10 years of age whereas 76 percent are in excess of 20 years. For the most part, the major maintenance challenges are associated with the approximate 2500 units which were constructed over the 1970-1985 period and which are subject to major building envelope deterioration.

The Corporation acknowledges that a preventative maintenance program could help address the overall maintenance challenges but as noted in the above social housing unit review the principal focus of the current maintenance budget is directed in support of day-to-day critical repairs out of necessity. However, the Corporation will be giving this issue priority in the development of its revised Corporate Strategic Plan.

Virtually the entire existing social housing portfolio of the Corporation was constructed prior to the dramatic demographic and rental market shifts which have occurred within the past decade or more. From this perspective, the Corporation has limited flexibility to match the current social housing demand with the existing demographic realities. Whenever possible, individual tenant placements are assigned on the basis of approved unit requirements. Moreover, as noted in the above review, the identified costs associated with the redesign, upgrading and reconfiguration of the larger, older units in the main are prohibitive and beyond the Corporation's existing budget limitations. The Corporation will, however, explore every cost-effective option to address this issue in the context of long-term housing accommodation options.

2.32 Newfoundland and Labrador Housing Corporation Non-Profit Rental Social Housing Units

2.33 Special Assistance

Introduction

The Department of Municipal and Provincial Affairs administers a special assistance program. The program is intended to provide grants to municipalities to assist them in dealing with emergencies of a health and/or life safety nature, general emergencies, and other initiatives as well as to assist municipalities which are experiencing financial difficulties.

Expenditures for the program for the year ended 31 March 2003 totalled $16.1 million. Of the $16.1 million, $4.5 million was for job creation, $5.7 million was for the Great Harbour Deep relocation, and $5.9 million was for special assistance to municipalities and other entities. Figure 1 provides information on expenditures for special assistance and the number of applications approved for funding for the last five years.

Figure 1

Department of Municipal and Provincial Affairs
Special Assistance
Expenditures and Approved Applications
Years Ended 31 March

Year	Expenditure ($ Millions)	Number of Applications Approved
1999	4.5	504
2000	3.6	504
2001	4.4	517
2002	5.3	1,271
2003	5.9	1,669

Source: Government's Financial Management System

Scope and Objectives

We completed a review of special assistance in October 2003. The objective of our review was to determine whether the Department is administering special assistance for purposes authorized by the Legislature and in accordance with Program Guidelines.

2.33 Special Assistance

Conclusions

Special assistance is budgeted under the ***Municipal*** Financial Assistance Program of the Department of ***Municipal*** and Provincial Affairs to provide assistance to municipalities and other entities. Given the Department's focus on municipalities, it would be reasonable to expect that the majority of this assistance would relate to municipalities and in 1999, 2000, and 2001, the majority of assistance did relate to municipalities. However, in 2002 only 46% of funding related to municipalities and in 2003, only 47% of the funding related to municipalities. Special assistance funding to municipalities has decreased significantly since 1999 when 79% of the funding was provided to municipalities. In my opinion, the funds provided for in this account were not used for the purpose authorized by the Legislature and, therefore, the Department contravened the *Financial Administration Act*.

The Department is not complying with the Program Guidelines. In particular, our review of 110 approved projects indicated the following:

- Recommendations of the Department's Executive Committee, comprised of the Deputy Minister and the Assistant Deputy Ministers, were not documented; therefore, we could not determine whether funding decisions for any of the projects reviewed for the year ended 31 March 2003 were assessed and approved by this Committee.
- Projects were not always approved by the Minister of Municipal and Provincial Affairs as required. For 13 of 73 projects which were not approved by the Minister, the projects were approved by the Premier's Office or the Minister of Finance. Ten of the 13 projects were for groups other than municipalities.
- Project files did not always contain the required analysis or recommendation from the appropriate regional office or, where applicable, the Fire Commissioner's Office.
- Project sponsors did not always submit the required documentation to support how the funding was spent.

Findings and Recommendation

1. Non Compliance with Legislation

The *Financial Administration Act* prohibits the payment of public money for purposes other than those authorized by the Legislature. The budget for the Municipal Financial Assistance Program is authorized by the Legislature through the annual Estimates process. This Program is intended to provide financial assistance to municipalities for debt servicing, municipal operating grants and special assistance.

2.33 Special Assistance

Our review of special assistance payments indicated that the Department of Municipal and Provincial Affairs is providing funding to groups other than municipalities. Therefore, as the funds provided in this account were not used for the purposes authorized by the Legislature, the Department contravened the *Financial Administration Act*. Figure 2 provides information on examples of payments which were made in contravention of the *Financial Administration Act*.

Figure 2

Department of Municipal and Provincial Affairs
Special Assistance
Examples of Payments in Contravention of the *Financial Administration Act*
Year Ended 31 March 2003
($000's)

Project Sponsor	Purpose	Amount
The Hub	Building renovations	101
The Royal Canadian Legion - Br. 1	Building renovations	65
Newfoundland and Labrador Association of Fire Chiefs and Firefighters	Learn Not to Burn Program	50
Youth 2000 Centre	Construction of new building	44
The Arthritis Society	Operational costs of Society; assist with CD production for Rod Jackson (Masterpiece)	44
St. John's Sports Entertainment	Cost of opening banquet at Civic Centre	40
Scott Tournament of Hearts	Offset cost of hosting the 2005 Tournament	29
St. John's Boys and Girls Club	Operating various programs	28
Newfoundland Native Women Association	Hire someone to assist in running the Association	25
St. John's International Women's Film and Video Festival	Offset costs of the festival	25
Miawpukek 1st Nations of Conne River	Assist with costs of organizational development phase of First Nations Trust Fund	25
East Coast Trail Association	Upgrades to trail system	20
Quintessential Vocal Ensemble	Performing at the International Musical Festival	20
Folk of the Sea	Re-establish cultural and commercial connections with Boston States	19
Exploits Veterans Pavillion Committee	Construction of a sun room at the Dr. Hugh Twomey Health Care Centre	13
MacDonald Drive Elementary School	Cost of a tree planting project	12

Source: Department of Municipal and Provincial Affairs

2.33 Special Assistance

Figure 3 provides a summary of the allocation of special assistance funding between municipalities and non-municipalities over the last five years.

Figure 3

Department of Municipal and Provincial Affairs
Allocation of Special Assistance Funding
Years Ended 31 March
($ Millions)

	1999		2000		2001		2002		2003	
	$	%	$	%	$	%	$	%	$	%
Municipalities	3.6	79	2.5	69	3.1	69	2.4	46	2.8	47
Non-municipalities	0.9	21	1.1	31	1.3	31	2.9	54	3.1	53
Total	**4.5**	**100**	**3.6**	**100**	**4.4**	**100**	**5.3**	**100**	**5.9**	**100**

Source: Government's Financial Management System

As Figure 3 shows, the amounts paid to non-municipalities has increased from $900,000 (21%) in 1999 to $3.1 million (53%) in 2003, an increase of $2.2 million (244%).

2. Review and Approval of Special Assistance Grants

The Department of Municipal and Provincial Affairs has established guidelines for the payment of special assistance grants. These guidelines include the following requirements:

- a written request for funding from the municipality;
- a written analysis and recommendation from the appropriate regional office and, where applicable, the Fire Commissioner's Office;
- an assessment and recommendation by the Department's Executive Committee consisting of the Deputy Minister and Assistant Deputy Ministers;

- a letter from the Minister to the municipalities advising whether their request for financial assistance was approved or rejected; and
- the submission of documentation by municipalities to support expenditures for grants approved in excess of $50,000.

Our review of a sample of 110 projects (80 projects for 19 municipalities and 30 projects for 20 non-municipalities) which received funding totalling $2.1 million, indicated that the Department is not complying with the guidelines. In particular:

- The Executive Committee, comprised of the Deputy Minister and Assistant Deputy Ministers, is to review funding requests. However, recommendations of the Executive Committee were not documented. Therefore, we could not determine whether funding decisions for any of the projects reviewed for the year were assessed and recommended for approval as required by the guidelines.
- For 2 projects totalling $58,000, there was no evidence of a request from the project sponsor for the funding as required by Program Guidelines. Both of these projects were for non-municipalities.
- Of the 110 projects, 80 required a written analysis and recommendation from the appropriate regional office or, where applicable, the Fire Commissioner's Office. However, for 49 projects with approved funding of $1.13 million, no analysis or recommendation from the appropriate regional office or, where applicable, the Fire Commissioner's Office was on file.
- For 73 of the 110 projects reviewed with total approved funding of $1.7 million, there was no letter signed by the Minister to the group requesting funding advising that their request for financial assistance was approved. These 73 projects were approved as follows:
    - For 6 projects totalling $23,876, all to municipalities, a letter was not sent by the Minister to the town approving the funding; however, there was evidence in the file that the request was reviewed and approved by the Minister.

2.33 Special Assistance

  - For 47 projects totalling $1,107,003, approval was provided by either the Deputy Minister, an Assistant Deputy Minister, a regional director, or a municipal finance officer of the Department of Municipal and Provincial Affairs. Of these projects, 31 were for municipalities and 16 were for non-municipalities.
  - For 11 projects totalling $344,750, the Premier's Office approved the projects. Of the 11 projects, 8 projects totalling $258,750 were for groups other than municipalities.
  - For 7 projects totalling $52,361, all to municipalities, a letter was sent to the town approving the funding but the letter was signed by the Deputy Minister or Assistant Deputy Minister on behalf of the Minister, and there was no other indication of the Minister's approval for these projects.
  - For 2 projects totalling $140,900, the Minister of Finance approved the projects. Both of these projects were for groups other than municipalities.

- For 2 projects for municipalities which received funding in excess of $50,000 each, the required documentation to support how the funding was spent was not always requested or provided. For 1 municipality, supporting documentation required by the Program Guidelines was only requested and submitted for a portion of the funding spent. The Department did not request or receive supporting documentation relating to how funding was spent for the other municipality.

- For 4 projects for non-municipalities which received funding in excess of $50,000 each, documentation to support how the funding was spent was not always requested or provided. The Department did not request or receive supporting documentation relating to how funding was spent for 2 of the 4 projects for non-municipality groups.

- The Department can also require project sponsors which receive less than $50,000 in funding to provide documentation to support how the funding was spent. Our review of this requirement indicated that:

    - For 78 projects for municipalities, the Department requested supporting documentation from 27; however, 5 of the 27 municipalities did not submit the supporting documentation as requested. Subsequent to our review, we received supporting documentation for 3 of the 5 projects for municipalities. One of the 2 remaining projects is for the Town of Badger. It was indicated that the Town was unable to submit the supporting documentation as the documentation was destroyed during the February 2003 flood.

    - For 26 projects for non-municipality groups, the Department requested supporting documentation from 7; however, 2 of the 7 non-municipalities did not submit the supporting documentation as requested and 2 projects are not yet complete.

Recommendation

The Department should comply with the Financial Administration Act *and with Program Guidelines established for special assistance.*

Department's Response

The Department does not agree with your observation that the special assistance funds were not used for the purpose authorized by the Legislature.

As you know, funding for special assistance is budgeted under what is known in Government's Program Structure as an "Activity". This is the level at which the House of Assembly votes funding and is the level used for appropriation control. The note provided in the 2002/03 Estimates for special assistance states that the appropriation provides for the payment of special assistance grants to municipalities and other entities. As can be seen from this note, funding from this appropriation is not restricted to municipalities but that the appropriation also provides funding for entities other than municipalities. It is therefore the Department's view that all payments made from the special assistance appropriation have been properly authorized by the Legislature.

Furthermore, the Department's detailed explanatory notes to the Estimates states that the Special Assistance Activity provides for a Special Assistance Fund which is to be used at the discretion of the Minister to address such things as: municipal emergencies of a health and/or life safety nature; general emergency assistance to municipalities; special assistance to municipalities which experience financial difficulties; and other projects or initiatives, involving municipalities and/or other entities, approved at the discretion of the Minister.

With regard to the observation that the Department is not complying with its guidelines for the payment of special assistance grants, the Department does make every effort to comply with these guidelines. In the meantime, it is important to understand that these are indeed guidelines and that there may be some situations in which full compliance is not practical. In the final analysis, all expenditures from the Special Assistance Fund are made under authority of the Department of Municipal and Provincial Affairs.

2.34 Agency of Record

Introduction

The Tourism Division of the Department of Tourism, Culture and Recreation is responsible for marketing Newfoundland and Labrador as a travel destination and working with the tourism industry to develop high quality tourism products. To accomplish this, the Tourism Division's budget for the 2002 - 2003 is $7,815,100. Details of the Division's budget and actual expenditures for each of the last five years are provided in Figure 1.

Figure 1

Department of Tourism, Culture and Recreation
Tourism Division
Budget and Actual Expenditures

Period	Budget $	Actual $
1998-99	6,384,600	9,394,491
1999-00	7,597,700	7,531,094
2000-01	8,524,700	8,776,021
2001-02	6,583,300	7,086,413
2002-03	7,815,100	7,631,141

Source: Public Accounts

In June 2002, the Department of Tourism, Culture and Recreation contracted an agency of record to serve as the sole advertising agency for tourism promotion in the Province. The agency of record was to provide advertising, marketing and research services, and print and electronic production capabilities to the Minister to promote Newfoundland and Labrador as a tourism destination.

The contract is effective 4 June 2002 and is for a term of three years to 31 May 2005. There is an option for the Department to extend the contract for two additional one year terms. Annual expenditures are expected to be approximately $2.0 million, with the total value of this contract over its initial three years expected to be approximately $6.0 million.

A previous agency of record contract effective for the period 2 November 1998 to 31October 2000 was subsequently extended to 31 May 2002.

Total expenditures for the agency of record for each of the previous five fiscal years is provided in Figure 2.

Figure 2

Department of Tourism, Culture and Recreation
Total Agency of Record Expenditures

Period	Agency of Record Expenditures
1998-99	$2,091,232
1999-00	2,349,899
2000-01	2,415,716
2001-02	2,359,120
2002-03	2,859,105
Total	**$12,075,072**

Source: Government's Financial Management System

Scope and Objectives

We completed our review of the agency of record of the Department of Tourism, Culture and Recreation in April 2003. Specifically, we reviewed the process followed by the Department in awarding the agency of record contract. Extensions to the previous agency of record contract were also reviewed to determine the process followed. We also reviewed the systems of internal control to assess if agency of record contract monitoring activities were adequate. In addition, a sample of expenditures under the agency of record contract were reviewed to determine if they were in compliance with government policies and procedures and with the terms of the contract.

Conclusions

The Department of Tourism, Culture and Recreation contracts with an agency of record to serve as the sole advertising agency for tourism promotion in the Province. Our review of the process used by the Department in selecting and monitoring the agency of record disclosed the following:

- Although the Department has a formal agency of record review process outlining the factors to be used in a review and appraisal, the required review was never completed for the contract period 2 November 1998 to 31 October 2000. Even though the agency of record's performance was never formally reviewed, the contract was extended for the period 1 November 2000 to 31 October 2001.

Furthermore, although there was no provision in the existing contract for any extension beyond 31 October 2001, the Department extended the contract for an additional seven months to 31 May 2002. As a result, the Department did not follow the spirit and intent of Government's public proposal call process.

- In March 2002 the Department conducted a public proposal call for an agency of record to cover the period June 2002 to May 2005 with two additional one year extensions.

  The terms of reference requesting bids indicated that the value of the contract was approximately $2.0 million annually. However, the Department had estimated that this contract would be worth approximately $4.0 million annually, and this was the basis for its 2002-03 budget. As a result of not referring to the increased actual anticipated value of this contract, it is not known whether additional companies may have responded.

  Furthermore, although the Department established a five member review committee to review proposals and make a recommendation to the Minister, we identified a number of issues relating to the process used by the Committee. For example, information on billing rates was requested from bidders but not rated by the Committee, only four of the five Committee members completed the evaluation forms and only two of the four evaluation forms were fully completed for all established criteria. We also found that the review committee did not provide bidders with an opportunity to provide a presentation as was done for the previous contract.

- The Department does not always receive complete documentation to support payments to the agency of record as required under the contract. Details on third party costs and professional fees are not always provided with project estimates or as support for amounts included with billings received from the agency of record. The Department does not follow-up on missing documentation; instead, it pays the billings as submitted by the agency of record. As a result, the Department is not always adequately verifying billings before payment. Furthermore, although the contract provides the Department with the authority to request that records related to completed projects be made available, such a request has never been made.

- The Department contravened the *Public Tender Act* by not calling public tenders relating to selling advertising for the *2003 Travel Guide*. The agency of record received $32,278 for this service relating to the *2003 Travel Guide*.

  The Department contravened the *Financial Administration Act* by not recording in-kind contributions totalling $16,375 for 2002-03 in the accounts of the Province as revenue and by not recording the $32,278 paid to the agency of record as an expenditure.

  Furthermore, the acceptance of in-kind contributions is inappropriate and is not in accordance with the spirit and intent of the *Financial Administration Act*.

  Officials of the Department informed us that in-kind contributions totalling $16,375 consisted of airline credits of $10,000 and vacation package credits of $6,375. In-kind contributions are very difficult to control and are open to misuse. We found controls over the in-kind contributions to be severely lacking. After several inquiries to Departmental staff, we were informed that there was no documentation available for 2002-03 and any prior year as to who used the in-kind credits. The lack of documentation regarding these credits is of considerable concern.

Findings and Recommendations

Agency of Record Contract - 2 November 1998 to 31 May 2002

The Department had an agency of record contract effective for the period 2 November 1998 to 31 October 2000. The contract with the company provided that the Department could enter into a one year extension (1 November 2000 to 31 October 2001) following the successful completion of a review of the agency's performance.

Our review indicated that, although the Department had a formal agency of record review process outlining the factors to be used in a review and appraisal, there is no documentation on file to indicate that this review was performed. Even though the agency of record's performance was never formally reviewed, the contract was extended for the period 1 November 2000 to 31 October 2001. Extending the contract, valued at approximately $2.3 million annually, to the existing agency of record without conducting a formal review and appraisal of the agency's performance is an unacceptable management practice.

Documentation at the Department indicated that officials wanted to extend the existing agency of record contract for an additional two years, i.e. 31 October 2003 without a public call for proposals. However, on 25 November 2001, the Deputy Minister indicated that the Department had been directed to extend the contract for six months, i.e. 30 April 2002. Ultimately, the contract was extended to 31 May 2002. There was no provision in the existing contract for any extension beyond 31 October 2001. As a result, the Department did not follow the spirit and intent of Government's public proposal call process when it extended the existing contract for an additional seven months. During this seven month period, the agency of record was paid a total of approximately $1.7 million. This is of particular concern given that the Department did have sufficient time to call for public proposals.

Agency of Record Contract - 4 June 2002 to 31 May 2005

In March 2002, the Department of Tourism, Culture and Recreation conducted a public proposal call for the provision of tourism advertising and marketing services to the Department. The Department prepared a terms of reference related to the proposal call. Fourteen companies requested the terms of reference and proposals were received from two.

A review committee, consisting of the three Departmental officials in the Tourism Division as well as the Department's Deputy Minister and Assistant Deputy Minister, reviewed the proposals and made a recommendation to the Minister. Based on its analysis, the Committee recommended that the contract be awarded to the same agency of record which had been in place since 1998. The Committee's recommendation was approved by Cabinet on 30 May 2002. A contract was signed on 4 June 2002, covering the period 4 June 2002 to 31 May 2005, with provision for two additional one year extensions.

Our review indicated the following:

- The terms of reference requesting bids indicated that the value of the contract was approximately $2.0 million annually. However, the Department had estimated that this contract would be worth approximately $4.0 million annually, and this was the basis for its 2002-03 budget. As a result of not referring to the increased actual anticipated value of this contract, it is not known whether additional companies may have responded.

- Although the terms of reference requested bidders to provide information on billing rates for agency staff, the Committee did not consider this in its evaluation of each proposal in that there was no rating assigned on the evaluation form.

- Members of the review committee individually rated the two proposals using criteria which it had established. We found that only 4 of the 5 committee members completed the evaluation forms and, of the 4 forms submitted, only 2 were fully completed for all established criteria.

- The two companies which submitted proposals were not provided with an opportunity to provide a presentation to the Committee. The process followed in 1998 for the selection of an agency of record did include a presentation from bidders. As a result, the Committee did not have the benefit of this information in making a determination about which company would be awarded the agency of record contract. Although one of the two companies complained about the change in process from 1998, no presentation was ever requested.

Contract Expenditures

The contract requires that the agency of record prepare an estimate of each individual project for approval by the Department prior to any work actually being performed. The contract also requires the agency of record to provide " *... invoice(s) to the Minister for professional services, time and costs for that part of the work as performed; time sheets, appropriate tear sheets, and other relevant back-up information ...* ". Furthermore, the contract requires the agency of record to make available to the Department, upon request, all supporting records related to completed projects including all records relating to third party contractors.

We reviewed 99 payments totalling approximately $2.4 million (50 for 2001-02 and 49 for 2002-03) under the contract with the agency of record to determine whether the payments were supported by the documentation required under the contract. Our review indicated the following:

- The agency of record is required to submit detailed project estimates which include third party charges and estimates of its professional fees (i.e. related to salary costs) before the commencement of any project work. While estimates relating to 49 of the 99 payments included professional fees, we found that in 8 instances details on the professional fees such as the classification of the workers, number of hours expected and the hourly rates were not provided.

- Of the 49 payments which included professional fees totalling $434,488, none of the billings from the agency of record included time sheets or other supporting documentation to support these costs.

  In addition, while 80 of the 99 payments included third party charges, in 12 instances the Department made the payment even though complete documentation from the agency of record to support third party charges totalling $371,837 included on the agency's billings was not provided. The Department did not follow-up on the missing documentation; instead, it paid the billings as submitted by the agency of record.

  As a result, the Department is not always adequately verifying billings before payment.

- Although differences between project estimates and actual billings would be expected, our review identified that 27 of the 99 payments totalling $383,781 were identical to the project estimates submitted by the agency of record. The significance of this is increased given that the Department is paying billings without receiving complete documentation.

- Although the contract provides the Department with the authority to request that records related to completed projects be made available, such a request has never been made.

- A budget estimate in November 2001 for $1,830 was mistaken for an invoice and paid in error.

Advertising Revenue

Each year, the Department of Tourism, Culture and Recreation, in conjunction with the agency of record, produces a Travel Guide of Newfoundland and Labrador. The travel guide includes various attractions, adventures, accommodations, tours, excursions, shops, studios, galleries, festivals and events in Newfoundland and Labrador. The travel guide is distributed to all inquiries for travel information in Canada, United States and English-speaking Europe. Approximately 200,000 copies of the travel guide are printed annually.

2.34 Agency of Record

The agency of record coordinates the sale of advertising in the Travel Guide. The agency of record collects the revenue from these advertising sales, retains a 15% commission, and remits the balance to the Department, where it is recorded as related revenue for public accounts purposes. There is no formal arrangement with the agency for this work.

Our review of the ***2003 Travel Guide*** indicated that there was advertising revenue of $215,188. Officials of the Department indicated that the agency of record retained a 15% commission, totalling $32,278, on these advertising sales. Also, Departmental officials indicated that certain advertisers pay for the advertising with an "in kind" contribution to the Department. For 2002-03, these "in kind" contributions totalled $16,375.

Our review of this process indicated the following:

- The Department contravened the *Public Tender Act* by not calling public tenders relating to selling advertising in the Province's *2003 Travel Guide*. The agency of record received $32,278 in commissions relating to this service for the *2003 Travel Guide*.

- The Department contravened the *Financial Administration Act* by not recording the in-kind contributions totalling $16,375 for 2002-03 in the accounts of the Province as related revenue and also by not recording the $32,278 paid to the agency of record during 2002-03 as an expenditure.

- The acceptance of in-kind contributions is inappropriate and is not in accordance with the spirit and intent of the *Financial Administration Act*. In-kind contributions are very difficult to control and are open to misuse. Officials of the Department informed us that in-kind contributions for 2002-03 totalled $16,375 and consisted of airline credits of $10,000 and vacation package credits of $6,375.

  We found controls over the in-kind contributions to be severely lacking. After several inquiries to Departmental staff, we were informed that there was no documentation available for 2002-03 and any prior year as to who used the in-kind credits. The lack of documentation regarding these credits is of considerable concern.

2.34 Agency of Record

Recommendations

The Department should:

- *complete all required performance reviews and appraisals of services being provided before extending contracts;*
- *call for public proposals in time to avoid the extension of contracts beyond the limits established in the contract;*
- *ensure that all billings presented for payment are accompanied by the supporting documentation as required in the contract; and*
- *comply with the requirements of the* Financial Administration Act *and the* Public Tender Act.

Department's Response

- ***The Department should complete all performance reviews and appraisals of services being provided before extending contracts.***

  The Department notes that it undertook performance reviews and appraisals of services being provided before extending the November 1998 contract signed with The Bristol Group as the Department's Agency of Record, although the Department notes that there was no contractual requirement to do so.

  In the November 1998 contract, Section 1.16 specified that the Terms of Reference for the Call for Proposals for an Agency of Record formed part of the contract. The Terms of Reference stated that the contract would be for a period of two years and nine months, with an optional one-year extension to May 2002. The Terms of Reference also stated that successful completion of an agency review and performance assessment was a necessary "but not a sufficient condition for the discretionary one year extension." That is, any such extension was to be solely at the discretion of the Department of Tourism, Culture and Recreation.

  The Department extended the contract twice: first, from November 2000 to November 2001, and then again, from November 2001 to May 2002. The Department notes that it did not extend any contracts beyond the date noted in the Terms of Reference attached to Section 1.16 of the November 1998 contract, namely May 2002.

2.34 Agency of Record

As part of good governance and accountability, the Department did complete a two-pronged performance review and appraisal of services being provided by the Agency of Record before extending the existing contract for the first time in November 2000. Following a review of best practices in other jurisdictions, the Department undertook executive-level review and a management-level review in July and August 2000 based on contract compliance and overall customer satisfaction. Performance measures and other key indicators such as overall tourism growth were also examined.

This process built upon the results of rigorous, weekly status meetings (including detailed financial reports) with the AOR which the Department initiated at the outset of the contract in November 1998. The Department did not undertake a second, full performance review when it extended the contract a second time in November 2001, this being permitted under the terms of the contract. The Department had not identified any outstanding performance or service issues as part of its weekly monitoring and tracking and so extended the contract, as permitted.

The Department will ensure that all required performance reviews and appraisals of services being provided will be completed before extending contracts, if necessary, including a more formalized performance review process. This will include designation of a review committee, a set review schedule and an evaluation model listing the specific factors to be used in a review and appraisal, including criteria, major milestones, expected outcomes and outcome measures as well as documenting the results of the full review. The Department advises the Auditor General that it is in the process of developing a formal evaluation instrument.

- ***Calls for public proposals should be completed in time to avoid the extension of contracts beyond the limits established in the contract.***

The Department undertook a call of proposals for the hiring of a new Agency of Record beginning in March 2002. This process was concluded in May 2002, at the same time as the existing contract expired. In November 2001, the AOR contract had been legally extended to May 2002, according to the terms of the 1998 contract, Section 1.16, which attached the Terms of Reference to the contract. The process for evaluating these public proposals was completed in May 2002 and the Agency of Record was hired on June 4, 2002, upon cessation of the existing contract and completion of final decisions on the hiring a new Agency of Record.

2.34 Agency of Record

The decision to extend the contract a second time from November 2001 to May 2002, the full term allowed under Section 1.16 of the 1998 contract, was made primarily because the Department faced extenuating circumstances. In 2000, it had been directed by the then-Premier to undertake an unanticipated independent tourism marketing strategy review. The Department decided to complete this year-long review before hiring a new Agency of Record as the terms of reference for hiring would incorporate - and depend upon- the results of the marketing strategy.

It was determined that the process to contract an AOR would logically follow the completion of the marketing strategy review and recommendations which culminated in report to Government in December 2001. The Department believed that to hire an Agency of Record in advance of completion of the marketing strategy review and before final decisions on the future tourism marketing strategy and plan would be premature and pre-emptive as the new strategy would provide the overall direction and recommended approach for any new Agency.

The Department also notes that a possible concurrent marketing strategy review and call for public proposals placed large and competing demands on its limited departmental resources. These are both highly exacting, costly technical processes involving large amounts of staff time at a point in the marketing cycle (fall-winter-spring) when regular program activities such as preparing the travel guide, trade shows and media buying are at a peak.

Hence, the Department extended the AOR contract to May 2002 while it reviewed and decided upon the recommendations for a revitalized marketing strategy. Once the new marketing strategy had been accepted, the Department then prepared a public proposal call for a new AOR in advance of the end of the contract.

The Department believes, in retrospect, that the extension clauses in the Terms of Reference should have formed part of the provisions of the actual contract with the Agency of Record, rather than remaining in the RFP and referenced in the contract. Any such provisions will be placed explicitly in all future contracts. The Department concurs that, in future, all calls for public proposals should be made well in advance so as to avoid, wherever possible, the extension of contracts.

2.34 Agency of Record

The Department notes that at the time of the call for public proposals, the Department did not have conclusive information about actual tourism marketing budget amounts, beyond the $2.0 million stated in the Terms of Reference. While the Department may have hoped for, and indeed did receive, additional monies following the call for public proposals, it decided to err on the side of certainty and publish the information it had at the time.

The Department concurs with the Auditor General that it is important that any evaluation involving a public call for proposals should have full participation by all members and complete documentation so as to ensure the fairness, integrity, continuity and transparency of the process. The Department notes that one of the review committee members was ill during parts of the period of the March 2002 call for public proposals and was unable to complete the evaluation. The Department considered delaying the review process until such time as all members of the committee could be present but, on balance, decided to proceed.

The Department will endeavour, in future, to ensure that all evaluation documentation is reviewed for completeness in every detail before final decisions concerning performance appraisal are made. Also, the Department will further ensure that its future review committees contain provisions for naming designated, qualified alternative members, should one or more members be unable to complete their duties as required in the time available.

- ***The Department should ensure that all invoices presented for payment are accompanied by supporting documentation.***

The Department concurs with the Auditor General that it should always receive complete documentation to support payments to the Agency of Record as required under the contract, including details on third-party costs and professional fees, both those provided with cost estimates or as support for amounts included with billings received from the Agency of Record.

The Department confirms that the contract specifies that the AOR provide detailed estimates of the costs of executing any proposed media plan and the detailed costs of executing. These are received, as well as the verification of media expenditures. All tear sheets and confirmations are provided with invoices, except during the month of March when invoices must be paid by mid-April, based on the fiscal payment process. Invoices are reconciled in May when all the back-up information is received and are verified for accuracy at that time.

As per the contract, the Department pays a monthly charge by the Agency for personnel services based on a proportion of the time actually spent, with the maximum monthly personnel charges not exceeding $12,000 per month ($144,000 per year). The Department had not been receiving, nor requested, detailed work sheets to accompany monthly accountant management invoices since this information is reviewed at weekly status meetings with the Agency of Record. The Department has now requested that such back-up be submitted monthly and this is being done.

The Auditor General noted that project budgets submitted by the AOR are exactly the same as the subsequent billing, even though a significant portion of the invoice relates to third-party purchases. The project estimates closely reflect actual expenditures since the Department requires that all third-party costings and estimates be completed prior to the project budget preparation by the Agency of Record. This is to avoid any surprises and to have the estimates be an accurate assessment of the final costs when budgeting and planning expenditures. This has proven to be the case.

The Auditor General has noted considerable concern over the lack of controls for in-kind contributions, especially for the 2002-2003 period and any prior year as to who used in-kind credits. The Department agrees with this assessment and notes that this was caused in part by a new marketing partner who did not automatically send the Department documentation as had been the case with a previous partner.

In the case of in-kind contributions, the Department agrees with the Auditor General that it should have had systems in place to ensure proper documentation was received. The Department has since initiated a process to track and fully document the use of in-kind contributions.

- ***The Department must comply with the requirements of the* Financial Administration Act *and the* Public Tender Act.**

(a) *Sale of Advertising in the 2003 Travel Guide contravenes the* Public Tender Act

The Department did not call for tenders for the selling of advertising in the 2003 Travel Guide in the belief that this was covered by the contract with the Agency of Record. In the 2002 Terms of Reference for the Agency of Record, revenue generation for the Travel Guide is listed as one of the exclusive services of the Agency. As noted above, Section 1.16 of the 2002 contract *specified that "the Terms of Reference means the Department of Tourism's, Culture & Recreation's 1998 Terms of Reference for the program, which is attached and forms part of this agreement."*

The Department has placed revenue generation from the travel guide within the exclusive services of the AOR because the production and sale of ads are inextricably linked functions. The design and layout of the travel guide determines the number, amount and specifications of the advertising available, as well as the content, placement and "look and feel" of the ads within a single, unified publication. This is extremely important because the travel guide is the Department's single most important advertising tool. It is the most comprehensive and requested information available on Newfoundland and Labrador, reaching an estimated 200,000 inquirers annually and distributed worldwide.

The Department believed that since the AOR contract applies to Government's external consultancy guidelines, the Public Tender Act *would not apply and the Agency of Record could undertake the advertising sales as specified in the contract. The Department is seeking an opinion from the Department of Justice on this matter. If it is found that the Department contravened the* Public Tender Act, *the Department will immediately call for public tenders on the advertising sales.*

(b) ***Comply with the requirements of the*** **Financial Administration Act.**

The Department has already modified its accounting practices to ensure that the total amount of revenue generated from the sale of advertising in both the travel guide and other sales sold by the Agency of Record is deposited in the Department's account in full and the sales commission due to the Agency is then remitted in a separate financial transaction. The Department believes that this complies with the requirements under the Financial Administration Act.

The Department questions the Auditor General's findings that the Department contravened the Financial Administration Act *by not recording in-kind contributions totalling $16,375 for the 2002/2003 as revenue. The Department notes that in the case of the 2003 Travel Guide, the value of the in-kind contribution involving an airline partner was $10,000 and not $16,375 as indicated in the report. The $6,375 listed as "in-kind" for another company is incorrectly attributed. This transaction did not* *involve an in-kind contribution or exchange. As part of a larger marketing partnership initiative with the Department, the company in question was simply provided advertising space at no cost.*

The Department is seeking an opinion from the Department of Justice on whether the use of in-kind contributions or contra actually contravenes the Financial Administration Act. *If it is found that the Department contravened the* Act, *the Department will immediately cease this practice.*

2.34 Agency of Record

2.35 Newfoundland and Labrador Legacy Nature Trust

Introduction

On 22 March 1999, the Minister of Forest Resources and Agrifoods announced the establishment of the Newfoundland and Labrador Legacy Nature Trust, an incorporated non profit agency with a mandate to raise funds nationally and internationally to finance conservation projects in Newfoundland and Labrador.

On 14 September 1999, the Newfoundland and Labrador Legacy Nature Trust was incorporated by a founding committee of individuals from various sectors of the provincial environmental movement. The main objectives stated by the Trust are:

- to raise funds for conservation in the Province and match conservation needs with sources of support. The Trust will assist the conservation efforts of environment and community groups within the Province by raising and providing funding from new sources located primarily outside of the Province, which these groups are unable to access.
- promote and facilitate the development and implementation of regional and Provincial-scale conservation initiatives, and
- acquire and hold ecologically important land.

On 7 March 2000, the Province entered into a trust agreement with Newfoundland and Labrador Legacy Nature Trust and paid the Trust $1 million in seed funding. For a period of five years following 14 September 1999, the date of the Trust's incorporation, the Trust is entitled under the agreement to withdraw funds to cover basic operation and administration costs at a rate of no more than $200,000 per year, provided the Trust operates in accordance with its main objectives.

On 19 June 2001, the Trust was advised that ministerial responsibility for the Newfoundland and Labrador Legacy Nature Trust was transferred from the Department of Forest Resources and Agrifoods to the Department of Tourism, Culture and Recreation.

Scope and Objectives

We completed our review of the trust agreement between the Newfoundland and Labrador Legacy Nature Trust and the Province in September 2003. Our objectives were to determine:

- Government's involvement in establishing the Trust;
- whether the parties complied with the trust agreement; and
- whether Trust activities were adequately monitored.

2.35 Newfoundland and Labrador Legacy Nature Trust

Conclusions

On 14 September 1999, the Newfoundland and Labrador Legacy Nature Trust was incorporated by a founding committee of individuals from various sectors of the provincial environmental movement. On 7 March 2000, the Province entered into an agreement with the Trust and paid the Trust $1 million in seed funding.

The Department of Forest Resources and Agrifoods contravened the *Financial Administration Act* in providing the $1 million to the Trust through the use of a special warrant. The special warrant was issued in March 1999 and was indicated to be required on an urgent basis. However, the Trust did not exist at that time and in fact was not incorporated until September 1999, and the $1 million cheque was not paid to the Trust until almost a year later in March 2000.

The Newfoundland and Labrador Legacy Nature Trust has not complied with the Trust Agreement because reasonable progress has not been made towards raising matching funds for conservation. One of the main objectives of the Trust is to raise funds for conservation in the Province and match conservation needs with sources of support. Although the Trust had established a fundraising target totalling $465,000 for 2001 and 2002, it only raised $5,500 in project funding from outside sources. To the end of 2002, the Trust has spent $301,435 on administration since being incorporated in September 1999.

In June 2003 the Deputy Minister of Tourism, Culture and Recreation wrote the Trust informing them of the Minister's decision to reallocate approximately $500,000 of the trust to another environmental organization. The matter is still not fully resolved.

Government has not adequately monitored Trust activities. Government appointed a Board member to represent the Province's interest in the Trust; however, this Board member has attended only six of the seventeen Trust board meetings. As well, the Trust Agreement requires the submission of annual reports to the Minister. At the time of our review in September 2003, the last annual report submitted to the Minister was for the year ended 31 December 2000. I do note however that on 27 October 2003, the Trust submitted an annual report for 2002. No annual report was provided for 2001.

2.35 Newfoundland and Labrador Legacy Nature Trust

Findings and Recommendation

Government's Involvement with the Trust

On 12 March 1999, the Department of Forest Resources and Agrifoods received authority under a special warrant to pay the Newfoundland and Labrador Legacy Nature Trust a grant of $1 million to fund the basic operations of the Trust over its first five years. The special warrant indicated that the funds were urgently required for the Trust. On 31 March 1999, the Department prepared a cheque payable to the Trust in the amount of $1 million.

Although Government indicated that the $1 million was urgently required for the Trust, the Newfoundland and Labrador Legacy Nature Trust was not incorporated until 14 September 1999, and the cheque was not provided to the Trust until almost a year later, on 7 March 2000. It was at this point that the agreement was signed between the Department of Forest Resources and Agrifoods and the Newfoundland and Labrador Legacy Nature Trust, outlining how the money was to be spent.

My Office has previously reported that the $1 million special warrant was issued in contravention of the *Financial Administration Act* in that there was no "urgent requirement" as evidenced by the fact that the entity was not created until 14 September 1999, six months after the issuance of the special warrant and the cheque was not paid to the Trust until almost a year after the special warrant was issued.

The financial activity of the Trust is segregated into two parts - the $1 million Trust Fund activity and the Project activity. Financial information on the Trust Fund activity is outlined in Figure 1 while Figure 2 outlines the financial information relating to Projects activity.

2.35 Newfoundland and Labrador Legacy Nature Trust

Figure 1

Newfoundland and Labrador Legacy Nature Trust
Summary of Trust Activity
31 December

	2000	2001	2002	
Opening Balance	**$ 1,000,000**	**$ 949,659**	**$ 857,345**	
Administration	(50,341)	(92,314)	(158,780)	**$ (301,435)**
Ending Balance	**949,659**	**857,345**	**698,565**	
Advertising	-	4,507	-	**4,507**
Amortization	19	1,785	9,267	**11,071**
Communication	211	1,679	4,398	**6,288**
Conference (Net)	-	-	19,708	**19,708**
Insurance	-	2,878	4,161	**7,039**
Office	541	3,043	7,297	**10,881**
Miscellaneous	50	-	-	**50**
Professional fees	6,688	3,385	6,320	**16,393**
Rent	-	1,680	10,078	**11,758**
Salaries and Benefits	-	23,612	77,544	**101,156**
Services	37,829	36,022	2,359	**76,210**
Training & Membership	-	833	779	**1,612**
Travel	5,003	12,890	16,869	**34,762**
	$ 50,341	**$ 92,314**	**$ 158,780**	**$ 301,435**

Source: audited financial statements

2.35 Newfoundland and Labrador Legacy Nature Trust

As Figure 1 shows, the Trust has spent $301,435 on administration expenditures leaving a balance of $698,565 in the Trust Fund as at 31 December 2002. The Trust Agreement indicates that the Trust Funds are restricted in that they can only be used to a maximum of $200,000 per year for basic operations and administration.

Figure 2 shows that, of the $198,906 spent on projects, the Federal and Provincial governments directly contributed $170,906, $5,500 was raised from outside sources, and the remaining $22,500 came from earnings of the Trust. Earnings of the Trust totalled $119,543 comprised of $117,424 in investment income and $2,119 in other income.

Figure 2

Newfoundland and Labrador Legacy Nature Trust
Summary of Project Activity
31 December

	2000	2001	2002	Total
Opening Balance	**$ -**	**$ 40,228**	**$ 80,020**	
Investment income	40,228	44,792	32,404	$ 117,424
Other income	-	-	2,119	2,119
Grants - Federal	-	5,000	149,406	154,406
Grants - Provincial	1,500	-	15,000	16,500
Funding from outside sources	-	4,125	1,375	5,500
	41,728	**94,145**	**280,324**	
Project expenses	(1,500)	(14,125)	(183,281)	198,906
Closing Balance	**$ 40,228**	**$ 80,020**	**$ 97,043**	

Source: audited financial statements

2.35 Newfoundland and Labrador Legacy Nature Trust

Although the Trust has earned $117,424 in investment income and $2,119 in other income, only $22,500 of this $119,543 was spent on projects.

Compliance with the Trust Agreement

A Trust Agreement was signed on 7 March 2000 between Government and the Newfoundland and Labrador Legacy Nature Trust. The Trust Agreement has a number of provisions which must be complied with. Our review indicated that the Trust has not fully complied with the Agreement as follows:

- The Agreement states that the Minister may terminate the Trust after September 2001 if "*...reasonable progress has not been made by the Trust towards raising matching funds...*". The Agreement goes on to state that the Trust, if terminated, shall be paid to the Province and used in pursuing "*...objects similar to those for which the Trustee was incorporated.*"

  After three years of operations, the Trust has only raised $5,500 in project funding from outside sources, even though it had established fundraising targets of $465,000 during this period. Details of the Trust's fundraising targets and actual funds received are outlined in Figure 3.

Figure 3

Newfoundland and Labrador Legacy Nature Trust
Fund Raising Activity
Year Ended 31 December

	2000	2001	2002	Total
Fundraising Target	$ 0	$ 65,000	$ 400,000	$ 465,000
Revenue from Outside Sources	0	4,125	1,375	5,500
Fundraising Shortfall	0	60,875	398,625	459,500
Revenue from the Federal and Provincial Governments	$ 1,500	$ 5,000	$ 164,406	$ 170,906

Source: Newfoundland and Labrador Legacy Trust Financial Statements and Board Minutes.

> As the Figure shows, the Trust had a fundraising shortfall of $459,500 during 2001 and 2002. In fact, with the exception of the $5,500 received through fundraising, the only other source of revenue was Government funding of $170,906 for two projects, comprised of Federal funding of $154,406 and Provincial funding of $16,500.
>
> One of the main objectives of the Trust is to raise funds for conservation in the Province and match conservation needs with sources of support. Given the lack of fundraising the Trust has not met this objective.
>
> In June 2003 the Deputy Minister of Tourism, Culture and Recreation wrote the Trust informing them of the Minister's decision to reallocate approximately $500,000 of the trust to another environmental organization. The matter is still not fully resolved.

The Agreement requires that the Trust, on an annual basis and for a period of five years, *"...submit its Annual Report incorporating its audited financial statements for the year immediately preceding..."* to the Minister. Our review indicated that annual audited financial statements have been received by the Minister each year the Trust has operated. However, at the time of our review in September 2003, the last annual report submitted to the Minister was for the year ended 31 December 2000. I do note however on 27 October 2003, the Trust submitted an annual report for 2002. No annual report was provided for 2001.

Monitoring of Trust Activities

The Trust Agreement states that for a period of five years following incorporation i.e. from 14 September 1999 to 14 September 2004, the Minister *"...may appoint a government representative as a full voting member to the Board of Directors of the corporation."* Although the Trust was incorporated in September 1999 and the $1 million was paid to the Trust in March 2000, the Minister did not appoint a government representative to the Board of Directors until November 2000. This representative was to be a full voting member representing the Province's interest in the Trust. Our review indicated that for the period 27 November 2000 to 14 July 2003, there were seventeen Trust board of director meetings and the Government representative was present for only six of those seventeen meetings. As a result, the Province's interests in the Trust were not adequately represented.

Furthermore, as noted above, no annual report for 2001 was provided to the Minister as required under the Trust Agreement.

2.35 Newfoundland and Labrador Legacy Nature Trust

The main objectives stated by the Trust are to raise funds for conservation in the Province and match conservation needs with sources of support, promote and facilitate the development and implementation of regional and Provincial-scale conservation initiatives, and acquire and hold ecologically important land. Without appropriate monitoring, Government cannot assess the extent to which the Trust is complying with these objectives.

Recommendation

The Department of Tourism, Culture and Recreation should strengthen its monitoring of the Trust and take steps to ensure that the Newfoundland and Labrador Legacy Nature Trust fully complies with all the provisions of its Trust Agreement with the Province.

Department's Response

Overall:

- *The Department has committed to working more closely with the Newfoundland and Labrador Legacy Nature Trust to ensure that future endeavours comply with the trust agreement and raise an acceptable level of funds for conservation-related projects in Newfoundland and Labrador.*

- *The Department will monitor the NLLNT in accordance with the guidelines presented in Government policy and the accountability framework contained in the Guidelines for Annual Performance Reports and Activity Reports for Public Bodies and will work with the NLLNT as per the responsibilities set out in Excellence in Governance: A Handbook for Public Sector Bodies and the Accountability Framework Guidebook.*

Specific Issues:

- ***The Newfoundland and Labrador Legacy Nature Trust has not complied with the trust agreement because reasonable progress has not been made toward raising matching funds for conservation.***

  After three years of operations, with the exception of obtaining Federal funding of $154,406 and provincial funding of $16,500, the Auditor General notes that the trust has only raised $5,500 in project funding from outside sources.

2.35 Newfoundland and Labrador Legacy Nature Trust

The Department notes that the Newfoundland and Labrador Legacy Nature Trust was created to fill an identified need for a non-governmental organization that could attract significant additional resources for conservation activities in Newfoundland and Labrador by accessing new sources of funding. Since its creation, the main thrust of the new agency has been to assist the conservation efforts of environmental and community groups in the province by providing funding from sources that these groups are not currently able to access.

The Legacy Nature Trust was set up so that it would not compete for funding with other conservation groups in the province. Rather, it works with other groups to identify conservation priorities for the province and then seeks to match those needs with sources of funding. Much of this funding is expected to come from outside the province.

The Trust notes that a necessary first step in soliciting funds, especially from sources in Canada and the United states, is to build an impressive base of projects which constitute an essential marketing tool without which they would be unable to attract further investment. Much of the administrative costs noted by the Auditor General were necessary to incur if such a portfolio was to be developed. This is especially true as the Trust provides administrative support unavailable in partner organizations to prepare proposals and administer funding, without which these projects could not exist.

These projects also help establish a track record in successful conservation projects and build the network of conservation groups and partners who can deliver projects as well as meet the specific conservation objectives arising from them. With such a base of projects to sell and attract investment in place, the Newfoundland and Labrador Legacy Nature Trust can now focus on finalizing and executing its fund-raising plan as specified in the Trust Agreement to "raise matching funds for conservation."

The Department notes that the Trust maintains that the Board approved a budget and business plan for 2001, as reflected in the Board Minute of April 18, 2001 which included an approved fund raising target of \$65,000 for three years, for a total of \$195,000. This target was tied to the Eastern Habitat Joint Venture (EHJV) initiative and approved at the April 18, 2001 Board meeting.

A fund-raising target of $400,000 was approved in 2002 and carried over to 2003. "Preserving the Legacy: A Fund-Raising Approach for the Newfoundland and Labrador Legacy Nature Trust" was developed in July 2002 as an initial marketing plan to carry it through to April 2003 and formally approved by the Board.

The new Executive Director and staff are currently reviewing the fund-raising plan (which is focused at corporate partners and foundations mainly in Canada and the US). This to refresh the current strategy based on targeted research and established links, identify initiatives which may result in a more focused approach and earn some "quick wins." In addition, all responses from potential funders such as foundations have been acknowledged and potential leads with foundations who have expressed an interest in the Legacy Nature Trust are being followed up.

- ***The Minister of Tourism, Culture and Recreation has not fully resolved Government's intent to reallocate approximately $500,000 of the trust to another organization.***

The former Minister of TCR, the Hon. Julie Bettney, wrote the Trust in June 2003 and indicated that Government intended to withdraw $500,000 of the initial seed money from the NLLNT to allay expenditures associated with the newly formed Institute for Biodiversity and Ecosystem Science as indicated in Clause 9 of the Trust agreement. However, because this issue was not resolved before October 2003, the matter will be revisited by the new Minister of TCR, the Hon. Paul Shelley, before any further action will be taken.

- ***Government has not adequately monitored Board activities, specifically the lack of attendance by the Government-appointed Board Member and the Trust's failure to submit annual reports since the year ended December 2000.***

The Department concurs that regular attendance by the Government-appointed full-time Board member is critical to Government adequately monitoring the Board's activities.

The Department notes that the first Government-appointed Board member, Mr. Robert Smart, was appointed by the Department responsible at the time of the Trust's start-up. From the time that the Trust was transferred to the Department of TCR in June 2001 to the present, the Department has ensured that the Government-appointed Board member is the highest-ranking member of the

Department of TCR, namely the Deputy Minister who is the Department Head.

The previous Deputy Minister of Tourism, Culture and Recreation was ill during portions of 2001 and 2002, which stymied his ability to fully participate on the Board in person. During this time, however, he received regular reports on the Trust's progress. The present Deputy Minister of TCR, who was appointed to the position in February 2003, is the current provincial government representative on the Legacy Nature Trust Board of Directors. Since this appointment, other work commitments have prevented the Deputy Minister from attending all board meetings. However, he has established a close working relationship with the Executive Director of the Legacy Nature Trust and is supplied with the minutes from all board meetings. He has also received several full briefings on the operations of the Trust and its current fund-raising projects.

The Department will work to ensure in future that its Government-appointed Board member attends, if possible, all Board meetings and continues to receive regular updates and review of Board minutes.

The Department notes that it follows the Guidelines for Annual Performance Reports and Activity Reports for Public Bodies and works to ensure that all the public bodies and agencies for which it is responsible comply with the requirements for planning, monitoring and reporting and feedback which are set out in Excellence in Governance: A Handbook for Public Sector Bodies and the Accountability Framework Guidebook.

The Department advises that it has not received an annual report for 2000/2001 as this was the year the Trust was being set up and there were limited activities to report and few staff resources to produce an annual report. The Department is pleased to note that it has received a draft annual report from the Newfoundland and Labrador Legacy Nature Trust for the 2002 fiscal year in October 2003 and an annual report for the 2003 fiscal year is currently being prepared by the Trust.

2.35 Newfoundland and Labrador Legacy Nature Trust

Trust Response

1) *Broadly stated, the Trust is not in agreement with, nor does it endorse the Auditor General's report on the Trust.*

2) *The Trust does not agree with the statement in the current draft report that it has not complied with the "Trust Agreement" it signed with the Government of Newfoundland and Labrador.*

3) *Finally, the Trust Agreement stipulates that it is the Minister of the Department responsible for the Legacy Nature Trust (i.e., Department of Tourism, Culture and Recreation) who is empowered to judge whether the Trust has made reasonable progress towards its principal objectives, not the Office of the Auditor General.*

2.36 Bridge Inspections

Introduction

The Department of Works, Services and Transportation is responsible for construction, inspection and maintenance of bridges in the provincial road system. The Transportation Services Division has responsibility for roads and bridges. Within the Division, the Bridge Office is responsible for bridges whereas the Roads Section is responsible for culverts. The Department's Bridge Inspection Database shows there are 910 structures with inspection records, 823 identified as bridges and 87 identified as culverts. These culverts include corrugated steel structures referred to as multiplates and various size pipes and configurations but would not include what is commonly known as ditch culverts. Of the 823 bridges, 715 are six metres or longer and are subject to inspection by a Departmental engineer, 54 bridges are less than six metres and subject to inspection by highways maintenance staff and the remaining 54 do not have any length indicated in the database.

Information on the locations of bridges is maintained in binders of topographic maps. The Department's activities relating to bridge inspections include the completion of a bridge inspection report by highway maintenance personnel, regional engineers, and bridge engineers located at head office. The Department's policy is to maintain individual files for each of the 823 bridges. Furthermore, bridge inspection information is entered from the bridge inspection reports to a computerized information system at the Department.

In 1996 the Office of the Auditor General identified a number of issues with the bridge inspection program and recommended the Department establish a bridge inspection program that included objective standards for assessing bridge conditions and ensuring data in the bridge information system was current and accurate.

Scope and Objective

We completed our review in December 2002. The objective of our review was to assess whether the Department has: a bridge inspection program with objective standards for assessing bridge conditions, a bridge information system that is current and accurate and a rehabilitation and replacement plan based on information gathered from bridge inspections.

Conclusions

The Department has a bridge inspection policy; however, it is not documented and there is no documented approval of the policy. The bridge inspection policy is not risk based; instead, the policy is to inspect bridges six metres or longer every two years. A bridge may be inspected more frequently if the Bridge Office is made aware of safety issues; however, this is a reactive inspection and not proactive based on bridges with the highest degree of risk for safety. Contrary to the Department' s policy to inspect bridges six metres or longer every two years, 379 of the

715 bridges requiring such inspection have not been inspected within the past two years. Furthermore, 47 of these 379 bridges had an overall rating showing that they were in a poor or unsafe condition and 39 of the 379 bridges did not have an overall rating.

The Department does not have documented guidelines to assist the five regional engineers and six bridge engineers when completing bridge inspections to ensure that inspections are consistent among staff and across regions. Our review indicated there were inconsistencies in bridge condition ratings resulting from completed inspections.

The bridge inspection database maintained by the Department containing information input from the bridge inspection reports is incomplete and inaccurate. For example:

- At the time of our review in December 2002, the bridge inspection database did not include information on inspections performed after 2001.

- Fourteen bridges were not in the database and twelve bridges included should have been removed.

- Information on the length of 54 bridges is not included in the database. As a result, it is not possible, from our review of the database, to determine whether these bridges were six metres or longer and whether they should be inspected by engineers within the two year inspection requirement.

- 54 bridges in the database did not have an overall rating.

- Not all information relating to the condition of the bridges is entered into the database. For example, the results of load tests to determine the safety of a bridge is not entered.

The Department's process relating to bridge rehabilitation and replacement requires improvement. For example:

- The Department does not have a long-term plan to enable Government to consider future funding requirements in an orderly manner and to estimate how much funding will be required or when the funding would be required to rehabilitate or replace ageing bridges so that all bridges are brought up to a fair or good condition. This may also help avoid a significant fiscal burden of rehabilitating or replacing a large number of bridges in a short time-frame. Although the Department's database does provide for input of information regarding suggested rehabilitation and replacement cost and date, we found that 202 of the 360 bridges indicated as being 30 years of age or older did not have any estimates for future rehabilitation or replacement costs or the dates that the work should be completed.

- The Department does not use a risk based model to identify bridges for rehabilitation or replacement. Instead, on an annual basis the Bridge Office uses listings prepared by the five regions along with their own knowledge of bridge conditions and opinions with regard to safety and economics to set its annual work priorities.

- Officials at the Department have indicated that the funding for the bridge maintenance program is not sufficient. If the required maintenance is not performed on bridges, there will be extra costs for rehabilitation work and the work will be required sooner.

Findings and Recommendations

Bridge inspection is necessary to determine the safety of bridges on our highways and to determine required maintenance, rehabilitation and replacement. In order for the Department to apply a risk model to determine the priority and frequency of bridge inspections and to determine the priority for maintenance, rehabilitation and replacement, it requires detailed information about each of its 715 bridges. A complete and accurate bridge information database would be a useful tool to identify this information. Our review of the Department's bridge inspection program indicated the following:

Bridge Inspection Policy

The Department's bridge inspection policy is not risk based; instead, the policy is to inspect bridges at least every two years. A bridge may be inspected more frequently if the Bridge Office is made aware of safety issues; however, this is a reactive inspection and not proactive based on bridges with the highest degree of risk for safety.

Bridge inspections are not always being performed in accordance with Departmental policy which requires that bridges six metres or longer be inspected at least every two years. Figure 1 shows that 379 (124 + 222 + 33) of the 715 bridges have not been inspected in the last two years and that 47 of these 379 bridges had an overall rating showing that they were in a poor or unsafe condition. A further 39 of the 379 bridges did not have an overall rating.

Figure 1

Bridge Inspection
Bridges six metres or longer

Last Inspection	Overall Rating					
	Good Condition	Fair Condition	Poor Condition	Unsafe Condition	Not Rated	Totals
< 2 years	176	106	37	2	15	336
> 2 years < 5 years	48	49	19	2	6	124
> 5 years < 10 years	108	62	20	2	30	222
> 10 years	17	9	4	-	3	33
Totals	349	226	80	6	54	715

Source: Department's Bridge Inspection Database

Bridge inspection reports are not required to be completed for bridges under six metres. In 1997 the Bridge Office decided not to require regional office engineers to inspect bridges less than six metres in length and opted to have highway maintenance staff perform inspections of those structures. Inspections of bridges six metres and over are documented by an inspection report and entered into the Department's database whereas any inspection reports prepared by maintenance staff are not required to be entered into the database. If there is any question of bridge safety by highway maintenance staff they are required to request inspection of the structure by engineers in either the regional office or the Bridge Office. The Department's bridge inspection policy is not documented and there is no evidence the policy is approved.

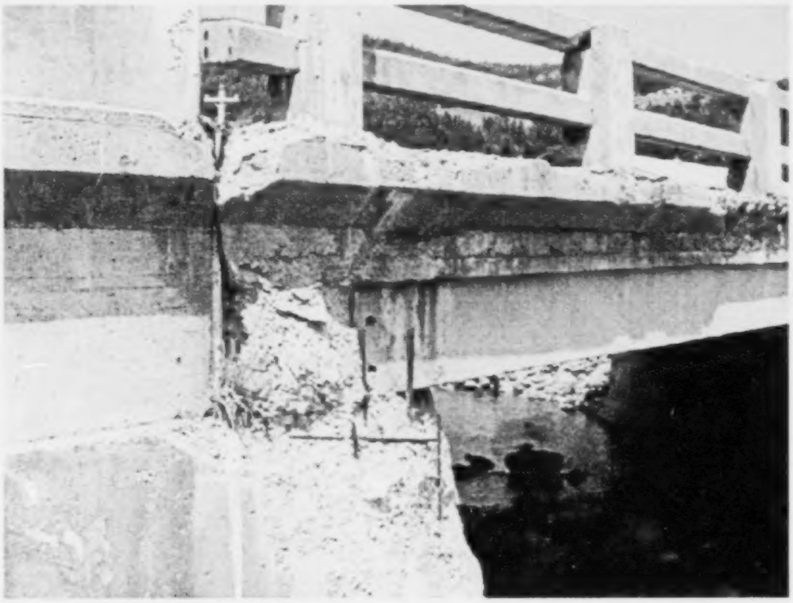
Two of the six bridges identified in the database as being unsafe were indicated in the database as requiring further inspection by the Bridge Office; however, there was no documentation in the bridge files to substantiate that further inspections were carried out.

We were unable to determine whether the appropriately qualified personnel completed inspections of 289 of the 715 bridges because the database did not indicate who performed the inspection. A further review of the 289 records showed 70 were either not rated or rated poor to unsafe and 66 of the 70 were inspected more than 2 years ago.

Bridge Inspection Guidelines

The Department does not have documented guidelines to assist the five regional engineers and six bridge engineers when completing bridge inspections. Guidelines are necessary to increase the objectivity of the ratings, to ensure consistency in rating the condition of bridge components by engineers in either the Regional Offices or the Bridge Office, and to ensure that bridge inspection forms are properly completed. Guidelines are also necessary so highway maintenance staff or regional office staff are aware of which specific bridge deficiencies are to be referred to the Bridge Office for further inspection.

For 98 of the 715 records included in the database we found that the general overall condition was either not rated or was rated better than the condition of the substructure and/or the superstructure. Discussions with staff at the Department confirmed that the overall bridge rating should be no higher than the lowest rating for the substructure and/or the superstructure. This indicates that, as a result of not having inspection guidelines, there are inconsistencies in the bridge condition ratings. As an a example, the Winterhouse Brook Bridge was rated overall as good while the superstructure was rated as poor.



Winterhouse Brook Bridge

The bridge inspection forms were not always fully completed. For example:

- 35 structures were indicated as being over navigable or non-navigable water; however, they were not rated for adequacy of waterway.

- 297 structures did not have ratings for bearings yet 220 of the 297 were rated for bearing seats. There may be exceptions but this is generally inconsistent because a structure with a bearing seat would normally be expected to have a bearing that should be rated.

Bridge Information

Information at the Department shows there are 910 structures with inspection records, 823 identified as bridges and 87 identified as culverts. The Department maintains information on these structures in three forms - a Bridge Inspection Database, a hard-copy file, and a series of topographic maps which indicate the location of various structures. Given the number of bridges in the Province, it is important that the Department has a means to keep accurate information on their condition. Our review indicated the following:

The Bridge Inspection Database is intended to capture information on the bridges in the Province and could be used to prioritize and manage inspections as well as maintenance, rehabilitation and replacement. Therefore, it is necessary that the database contain information that is complete and accurate. We found that the database was neither complete nor accurate. For example:

- At the time of our review in December 2002, the bridge inspection database did not include information on inspections performed after 2001.

- 14 bridges were not in the database: 3 were no longer part of the provincial road system and 11 were existing structures that were missed. The three bridges which are no longer part of the provincial road system are used for cabin access and, therefore, should be in the database and inspected. Of the 11 that were missed, 7 were constructed in 2001.

- 12 bridges were incorrectly included in the database: 6 were duplicates, 5 were not the responsibility of the Department, and 1 was demolished.

- 54 bridges in the database did not have information with respect to length. Therefore, as the database did not indicate whether the bridges were six metres or longer, we were unable to determine, from our review of the database, whether these bridges should be inspected by engineers in either the regional offices or the Bridge Office every two years. Twenty nine of these 54 bridges have not been inspected since 1997 or earlier.

- 54 bridges in the database did not have an overall rating.

- Not all information relating to the condition of the bridges is entered into the database. For example, the results of load tests to determine the safety of a bridge is not entered.

Although the Department maintains a hard-copy file for the bridges, not all information is included. For example, inspection reports, load test results, and non-routine Bridge Office inspection results are not always put in the file.

Bridge Rehabilitation and Replacement

The Canadian Highway Bridge Design code, the standard for bridge construction indicates that, until recently, a 50-year life was assumed. The actual life of a bridge can differ from this assumption depending on many factors such as the amount and weight of traffic, and use of road salt on the structure. In addition, the 50-year life estimate is contingent on regular maintenance and rehabilitation being undertaken, if not, the expected lifespan would be shorter. Regular maintenance is a yearly activity and would consist of, for example, cleaning out expansion joints, patching holes in the asphalt and clearing curbs of sand and salt accumulated from winter ice and snow control. Rehabilitation is generally completed in the range of 25 years after construction and could involve replacement of girders, deck, handrails or curbs. Such rehabilitation can restore a bridge to near the condition at construction.

Only 615 of the 715 bridges in the database has information on the year of construction. The average age of these 615 bridges is 29.3 years. Information on the age and condition of the bridges is outlined in Figure 2.

2.36 Bridge Inspections

Figure 2

Condition of bridges by age
Latest inspections to 31 December 2001

Bridge age	Overall Rating					
	Good Condition	Fair Condition	Poor Condition	Unsafe Condition	Not Rated	Totals
1 - 29	190	49	2	0	14	255
30 - 49	113	133	49	3	26	324
50 - 78	8	12	10	2	4	36
Not in database	38	32	19	1	10	100
Totals	349	226	80	6	54	715

Source: Department's Bridge Inspection Database

As Figure 2 shows, after 29 years, there are proportionately more bridges rated as being in a poor or unsafe condition. Therefore, as the average age of bridges is 29.3, it is likely that significant funding will be required in the future to maintain the bridges in a good condition.

Our review of the Department's maintenance, rehabilitation and replacement program for bridges indicated the following:

- The Department does not have a long-term plan to estimate how much funding will be required or when the funding would be required to rehabilitate or replace ageing bridges so that all bridges are brought up to a fair or good condition. Although the database does provide for input of information regarding suggested rehabilitation and replacement cost and date, we found that 202 of the 360 (324 + 36) bridges indicated as being 30 years of age or older did not have any estimates for future rehabilitation or replacement costs or the dates that the work should be completed.

  The development of long-term plan is necessary to enable Government to consider future funding requirements in an orderly manner and avoid a significant fiscal burden of rehabilitating or replacing a large number of bridges in a short time-frame.

- The Department does not use a risk based model to identify bridges for rehabilitation or replacement. Instead, on an annual basis each of the five Regions submit a prioritized listing of bridges for rehabilitation and replacement based on their knowledge of the region. The Bridge Office uses these listings along with their own knowledge of bridge conditions and opinions with regard to safety and economics to set its annual work priorities.

  Although the Department's database could be used as a source of information to set priorities for bridges relative to all other bridges in the Province, as a result of the incompleteness and inaccuracies in the database, it is not possible for the Department to use it to request funding for the highest risk bridges in the Province.

- Officials at the Department have indicated that the funding for the bridge maintenance program is not sufficient. If the required maintenance is not performed on bridges, there will be extra costs for rehabilitation work and the work will be required sooner.

Recommendations

The Department should:

- *develop and implement a documented and approved risk based bridge inspection policy;*
- *prepare guidelines to ensure that inspections are consistent among staff and across regions;*
- *ensure that the bridge inspection database is complete and accurate;*
- *develop and implement a long-term plan for future funding requirements for the rehabilitation and replacement of bridges.*

Department's Response

The Department is developing a risk-based bridge inspection policy. This policy will be further developed to include guidelines for engineering staff in the application of the policy. As well, a seminar will be held with regional staff in May 2004 to review these guidelines and ensure consistency in bridge inspections. The Department is committed to improving the bridge inspection process, which will require increased engineering staff time applied to report generation and data entry. Improvements to the database have been initiated, with a focus on data *processing integrity and the reorganization of the forms used for data collection.*

At present, the Department has four bridges which are labelled unsafe in the database. These ratings were assigned by the person at the regional level who did the inspections. Follow up inspections were done by a Senior Bridge Engineer or the Chief Bridge Engineer. These more detailed inspections indicated no imminent safety concerns and were upgraded from unsafe. It is acknowledged that the database was not upgraded to reflect this change. Had these inspections indicated otherwise, immediate action would have been taken. Two of these bridges are on cabin roads or other low volume roads, with very light traffic. The department is still assessing its options with respect to these bridges. The other two bridges are on department maintained roads and are monitored regularly. They have both been identified for consideration for rehabilitation in the next fiscal year.

With respect to the funding situation of the bridge program, the Department strives to optimize the funding allocation available for rehabilitation and replacement of provincial bridge structures. The Department will continue to evaluate all structures for load capacity, with priority given to the routes most affected by heavy loads. The Department is currently developing an eight year program to address the issues related to aging bridge infrastructure.

2.37 Ferry Operations

Introduction

The Department of Works, Services and Transportation is responsible for the Province's ferry operations. As at 31 March 2003, the Province's ferry operations included 21 vessels, 20 of which are serving 15 routes around the Province and 1 vessel, Hull 100, which is undergoing a major refit at Clarenville. Of the 21 vessels, 9 are owned by private operators and the remaining 12 are owned by the Province. Figure 1 provides the ages of these 12 Government owned vessels. As the Figure shows, the vessels range in age from 13 to 40 years and have an overall average age of 26 years.

Figure 1

Department of Works, Services and Transportation
Age of Province Owned Vessels
31 March 2003

Vessel	Age	Vessel	Age
Inch Arran	40	Sir Robert Bond	28
Green Bay Transport	36	Beaumont Hamel	18
Hamilton Sound	35	Gallipoli	17
Sound of Islay	35	Northern Ranger	17
Capt. Earl W. Windsor	31	Hull 100	17
Island Joiner	30	Flanders	13

For the year ended 31 March 2003, the Province spent $46.0 million on marine operations throughout Newfoundland and Labrador and reported related revenues of $23.5 million. In previous years we have reported on the expenditures related to a number of ferry operations. In particular we reported on the purchase and refit of the Hull 100, the coastal Labrador marine service and the Strait of Belle Isle ferry service. Figure 2 shows that, for the year ended 31 March 2003, approximately $22.0 million was spent on these two services and the Hull 100.

Figure 2

Department of Works, Services and Transportation
Marine Operation Costs
Year Ended 31 March 2003
($ Millions)

	Coastal Labrador	Strait of Belle Isle	Hull 100	Other	Total
Salaries	-	-	-	9.8	9.8
Transportation & Communication	0.8	-	-	0.3	1.1
Supplies	2.6	0.9	0.1	4.2	7.8
Purchased Services	10.6	4.9	2.1	7.9	25.5
Debt Expense	-	-	-	1.8	1.8
Gross Expenditure	14.0	5.8	2.2	24.0	46.0

Scope and Objectives

In November 2003 we completed an update review of ferry operations. The objective of our review was to determine the current status of matters identified in previous reports.

Conclusions

Vessel Renewal and Replacement

Departmental officials have informed us that the normal life expectancy of a vessel is approximately 25 years. At 31 March 2003, 7 of the Province's 12 vessels were more than 25 years old, the average age of all 12 vessels was 26.4 years and ranged from 13 years to 40 years.

The Department has developed a four phase plan to replace 5 of the Province's older vessels; however, no cost or time frame has been established.

Hull 100

In May 1999, the Department purchased the Hull 100 (formerly the Ahelaid), for $930,000. At that time, the Department estimated that the purchase and refit of the Hull 100 would cost $2.9 million and that the vessel would be available for service in 2001. However, as at September 2003, the vessel is still not in service and actual costs to date for the purchase and refit are approximately $8.4 million. Furthermore, Departmental officials indicated that the final estimated cost of the Hull 100 will exceed $9 million and it will not be available for service until 2004.

As a result of an amendment to the *Public Tender Act* in December 2001, the Department paid $500,000 for refit work considered as unknown without having to issue a public tender for the additional work. Furthermore, as a result of the amendment, members of the House of Assembly are no longer required to be notified of this type of additional work not tendered.

Labrador Transportation Initiative Fund

In 1997, the Province received approximately $348 million from the Federal Government and assumed responsibility for the Labrador ferry service. The $348 million was intended to fund this service in perpetuity. However, $207 million of the Fund has been used to construct the Labrador Highway and $96.1 million has been used to fund operating costs of the ferry service. At 31 March 2003, the balance of the Fund was $107.4 million and officials of the Labrador Transportation Initiative Fund have indicated that, if Phase III of the Labrador Highway is funded through this Fund, it is expected to be fully depleted by the 2005-06 fiscal year.

Labrador Ferry Service

The Department contravened the *Public Tender Act* by awarding three contracts valued at $12.2 million without a public tender call. Each of these contracts were extensions of existing contracts. Furthermore, these exceptions were not reported to the House of Assembly as required under the *Act*.

The Department made payments totalling $98,520 to two contractors for costs that were not required under the contracts.

Findings and Recommendations

Vessel Renewal and Replacement

Departmental officials have informed us that the normal life expectancy of a vessel is approximately 25 years. As Figure 1 shows, 7 of the Province's 12 vessels are more than 25 years old, the average age of all 12 vessels is 26.4 years and range from 13 years to 40 years.

The Department currently has a Committee in place to address concerns relating to ferry vessel age, condition and replacement. To date, the Committee has recommended that five vessels be replaced in four phases; however, no cost or time frame has been established. The vessels are scheduled to be replaced as follows: Phase 1 - Hamilton Sound, Phase 2 - Island Joiner and Inch Arran, Phase 3 - Green Bay Transport, and Phase 4 - Sound of Islay. The Department's recommendation has been accepted by Government and proposals have been called for Phase 1.

In May 1999, the Department purchased the Hull 100 (formerly the Ahelaid), for $930,000. At that time, the Department estimated that the purchase and refit of the Hull 100 would cost $2.9 million and that the vessel would be available for service in 2001.

Hull 100

Hull 100 tied up at Clarenville, November 2003

However, as at September 2003, the vessel is still not in service and actual costs to date for the purchase and refit are approximately $8.4 million. Furthermore, Departmental officials indicated that the final estimated cost of the Hull 100 will exceed $9 million and it will not be available for service until 2004.

For the year ended 31 March 2003, the Province spent $2.2 million for the refit of the Hull 100. On 13 December 2001, the *Public Tender Act* was amended whereby Government would not be required to publicly tender work undertaken on an emergency basis, a vessel leased on an emergency basis, or work unknown during a refit. In 2003, the Department publicly tendered for a contract valued at $2.9 million for refit work on the Hull 100. However, as at the date of our review, the Department has paid $3.4 million without having to issue a public tender for the additional work because it was considered to be unknown work as allowed under the amendment. As a result of the amendment, members of the House of Assembly are no longer required to be notified of this type of additional work.

Labrador Transportation Initiative Fund

In April of 1997, the Federal and Provincial governments announced an agreement that transferred responsibility for the coastal Labrador marine services to the Province. As part of this agreement, the Province received approximately $348 million and all related infrastructure including two vessels - the MV Sir Robert Bond and the MV Northern Ranger. In return, the Province assumed responsibility for the ferry service between St. Barbe, Newfoundland and Labrador and Blanc Sablon, Quebec, the ferry and freight service between Lewisporte and Happy Valley-Goose Bay, and the freight and coastal boat service along the coast of Labrador.

When the $348 million was provided to the Province, the intention was that this would fund the Labrador ferry operations in perpetuity. However, as at 31 March 2003, $207 million of the Fund has been used to construct the Labrador Highway and $96.1 million has been used for operating costs of the ferry service which have significantly exceeded the Department's original operating cost estimates. At 31 March 2003, the balance of the Fund was $107.4 million and according to officials of the Labrador Transportation Initiative Fund, *"If Phase III of the ... Labrador Highway is funded from the LTIF the fund is expected to be fully depleted by the 2005/06 fiscal year based on projected costs provided by the Department of Works, Services and Transportation..."*.

2.37 Ferry Operations

Labrador Ferry Service

When the Province took over the Labrador ferry service in 1997, it entered into an agreement for Marine Atlantic to continue to provide this service from 1 April 1997 to 31 December 1997 at a cost of $11.6 million. In 1998, the Province publicly tendered and issued contracts for this service to private operators. For the year ended 31 March 2003 this service cost the Province $20.6 million. Originally the Department had estimated the cost of this service from 1998 to 2003 would be approximately $73.8 million; however, the actual costs were approximately $100.9, an increase of $27.1 million or 37%. Information on the estimated costs and actual costs from 1998 to 2003 are outlined in Figure 3.

Figure 3

Coastal Labrador Marine Services
Projected and Actual Costs by Year
Years Ending 31 March
($ Millions)

Year	Estimated Cost	Actual Costs
1998	$ 13.5	$ 13.6
1999	12.6	14.1
2000	13.1	13.8
2001	12.6	21.0
2002	11.0	17.8
2003	11.0	20.6
	73.8	**100.9**

Source: Departmental reports, budgets and cost information.

2.37 Ferry Operations

The Labrador ferry service is provided thorough two main services, the coastal Labrador marine services and the Strait of Belle Isle ferry service. Issues identified during our review are outlined as follows:

1. Coastal Labrador Marine Services

The coastal Labrador marine service originally included the passenger and freight service between Lewisporte and Happy Valley-Goose Bay, and the freight and passenger service along the coast of Labrador as far north as Nain. In 2003, as a result of the completion of the southern Labrador highway as far as Cartwright, the passenger and freight service from Lewisporte was cancelled and moved to Cartwright, Labrador. Our review of these services identified the following:

- In April 1998, the Province awarded a two-year contract for the provision of freight and passenger service from Lewisporte to various ports in Labrador. This contract was for approximately $4.2 million per year and was to expire in March 2000 unless an option to extend for one year was exercised by the Department. In March 2000, the Department exercised the option and extended the contract to 31 March 2001.

  However, the Department did not publicly tender for two additional one-year extensions for fiscal years 2002 and 2003. As a result, the Department contravened the *Public Tender Act*. Furthermore, the exceptions were not reported to the House of Assembly as required under the *Act*.

- A contract for the lease of two vessels to provide freight service along the coast of Labrador expired in 2001-02. However, the contract, valued at approximately $3.8 million, was extended to cover the 2002-03 fiscal year without a public tender being called. As a result, the Department contravened the *Public Tender Act*. Furthermore, the exception was not reported to the House of Assembly as required under the *Act*.

- We found that the Department paid the contractor amounts not required in accordance with the contract. For example:

  - The contract with the operator of the MV Sir Robert Bond provides that the Department is responsible for the vessel during refit and that the operator will not be paid any rates while the vessel is in drydock. However, in April 2003 the Department paid the contractor daily rates totalling $70,495 for 23 days at $3,065 per day, while the vessel was in drydock.

  - The contractor charges a 10% administration fee on all billings to the Department related to refit work. From 1 April 2003 to September 2003 this fee amounted to $8,365 even though the tender specifications and contract indicated that administration costs were included in the daily rates paid to the contractor.

  - In April 2003, the Department paid $1,032 for services of crew members even though the per diem paid to the contractor already included these services.

- In August 2003, the Department paid another contractor $18,628 relating to a claim for lost equipment and repairs to the MV Astron. The payment was made even though the contractor owned and controlled the vessel and under the contract should have been responsible for these expenditures.

2. Strait of Belle Isle Ferry

The ferry service from St. Barbe to Blanc Sablon was tendered in 1999 and awarded in 2000 to a private contractor for approximately $4.7 million per year. The contract was for 4 years covering the 2000 to 2003 operating seasons with an option for renewal for an additional four years, or any part thereof, at the sole discretion of the Minister. The contract would have expired on 3 January 2004 unless the option to extend was exercised within 90 days prior to termination.

On 2 September 2003, four months prior to the contract expiry date, the Department exercised the option and renewed the contract for another four years The Department indicated that the contract was extended due to the poor responses to the original tender, the unavailability of suitable vessels worldwide and the increase in insurance premiums.

Recommendations

The Department should comply with the Public Tender Act.

The Department should monitor all contracts to ensure that all expenditures are in accordance with contract requirements.

Department's Response

Vessel Renewal and Replacement

The life expectancy of a vessel is dependent upon many factors including the preventative maintenance put into a vessel and any comprehensive *mid-life refit carried out. With proper maintenance and refits, a vessel could last up to 35-40 years. Vessels of this age range can and are operating on our services daily without service interruption.*

Hull 100

The Department has complied with the Public Tender Act *in the acquisition of services for this vessel. The Department exercised clause 3.2.h.1 of the* Act *regarding unknown work identified during the phase 2 refurbishment contract. The Department monitors all contracts, with corrective action taken whenever appropriate.*

Labrador Ferry Service

The extensions to the contracts for the Labrador ferry service were done under section 5.2 of the Public Tender Act, *which does not require reporting to the House of Assembly. The contracts for the coastal service have since been tendered again and awarded for the next several years.*

The Marine Atlantic cost figure of $11.6M cannot be used for comparison to the current costs. The Marine Atlantic did not include costs related to refit, winter maintenance of the freight handling facility, or the winter lay-up of the vessel. The estimated cost for the Labrador service of $73.8M was not intended to be a budgetary projection, but rather was calculated as part of an overall analysis of the service at that point in time (November, 1998). This analysis did not include infrastructure expenses, allowances for rising fuel and operating costs or any changes to vessels. Consequently, the situation assumed in this analysis never materialized.

Payments made for the Coastal Labrador marine service were in accordance with the contract. For the 28 days of dockyard refit, no payments were made to the contractor. For the remaining 337 days of the year, daily rates were paid depending upon the status of the vessel (i.e. lay up, operating, transport). As stated in previous responses to Auditor General reviews, the Department is responsible to pay these rates as per the precise terms of the contract. To say that the contractor is not entitled to a daily rate and must bear the costs regardless is not correct nor is it contemplated under the contract.

With respect to the payments made to the contractor for the MV Astron, the work performed at the end of the contract relates to clauses regarding off-hire survey work. Any difference to the vessel resulting from the carriage of freight is assessed by an independent surveyor at the beginning (on-hire) and at the end (off-hire) of the contract. The resultant work is the responsibility of the Department.

2.37 Ferry Operations

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CHAPTER

3

Update on Prior Years' Report Items

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Update on Prior Years' Report Items

3.1 Introduction

We conduct legislative audits to provide the House of Assembly with information on public sector accountability. Legislative audits are carried out to determine whether:

- public money is being properly collected and accounted for;
- expenditures are properly recorded and made for the purposes intended;
- accounts are properly kept;
- assets are adequately safeguarded; and
- accounting and management systems and practices are adequate.

These legislative audits also determine whether the activities of Government departments and agencies have been carried out in compliance with legislation, government policies and other authorities.

Monitoring the implementation of our recommendations is an important part of our obligation to report to the House of Assembly. Our objective is to monitor and report the degree to which positive change has occurred as a result of the implementation of recommendations in our prior years' reports.

In 1996, we commenced a formal process of monitoring and updating the comments and recommendations included in our previous Annual Reports to the House of Assembly. It is our intention to monitor and update the recommendations in each Annual Report two years after it has been issued. Monitoring will continue until we are reasonably satisfied that issues are being adequately addressed or are no longer valid.

This Chapter includes the results of these monitoring activities on our Annual Reports up to and including 2001.

Department of Finance

3.2.1 C.A. Pippy Park Commission (2001 Annual Report, Part 3.14)

Introduction

In 2001, we performed a review of two significant aspects of the C.A. Pippy Park Commission's operations, namely activities relating to capital transactions and the agreement between Thomas Development (1989) Corporation (TDC) and the Province covering the management and operation of two golf courses. Our review concluded the following:

Update on Prior Years' Report Items

- On 20 November 1997, an agreement covering the management and operation of the two golf courses located within Pippy Park was entered into between the Commission, TDC, and the Province. Under the agreement, TDC is to manage and operate the golf courses for an initial seven year term expiring 31 December 2004, with an option for an extended term after that date.

  Financial assistance had been provided to TDC which was not required under the management agreement. This assistance represented a direct subsidy to TDC's operations. As well, the Management Agreement between TDC and the Government was not always being complied with.

- From 31 March 1998 to 31 March 2001, Government provided the Commission with $658,000 in capital funding. Of the $658,000, approximately $337,000 was used for purposes other than intended by Government.

- During 2000-01, $270,000 was provided by Government to the Commission for renovations at the golf course clubhouse. There was insufficient documentation at the Commission to support approximately $265,000 of the $270,000 spent on the clubhouse renovations in that there were no purchase orders or tenders. As a result, we could not determine how the various suppliers were selected and whether a fair and reasonable price was established.

Update

In October 2003, we contacted the C.A. Pippy Park Commission requesting an update as to the progress on the comments and recommendations included in our 2001 report. The information provided by the Commission in response to our request is outlined below.

2001 Recommendations

The Commission should review the activities of TDC as required by the Agreement between TDC and the Government to ensure compliance with the Agreement and closely monitor the financial position of TDC to identify and minimize the potential financial and operational impact on the Government and the Commission.

The Commission should ensure that funds provided by Government are used for the purpose intended.

The Commission should ensure that payments made on special projects are adequately supported and are for the intended purpose.

Action Taken

In response to these recommendations, officials indicated that the Commission has adopted a thorough review process for the activities conducted by TDC. Two members of the Commission now sit on the Board of TDC and report back to the Commission following each TDC Board meeting. Also, the Commission receives and approves a yearly budget submission from TDC which outlines any capital/special projects to be undertaken. The budget and any amendments require Commission approval. In addition, the Commission has also requested the presence of the Treasurer of TDC on a quarterly basis to review the financial operations of TDC.

2001 Recommendation

The Commission should maintain adequate control over its capital assets.

Action Taken

Officials of the Commission indicated that they have reinstated the same system for capital assets that is used by the Province.

3.2.2 Health and Post Secondary Education Tax (2001 Annual Report, Part 3.15)

Introduction

The Health and Post Secondary Education Tax (Payroll Tax) was introduced on 1 August 1990 by the Provincial Government as a revenue generating measure. The Tax Administration Branch of the Department of Finance is responsible for the administration of Payroll Tax by ensuring that the *Health and Post Secondary Education Tax Act* (the *Act*) and its regulations, along with Departmental policies, are being complied with by companies with employees in Newfoundland and Labrador. The *Act* requires that all employers pay a 2% tax on the portion of remuneration paid to employees who report for work in the Province and which is in excess of a tax free exemption. This exemption is available to all companies registered under the *Act*, although associated companies must share one exemption. This exemption is periodically revised by amending the *Act*.

In 2001, we performed a review of Payroll Tax at the Department of Finance. We concluded that:

- The processes in place for the identification of unregistered employers was not adequate. The Department relies mainly on voluntary compliance of employers to register themselves.
- Regular reviews of terminated employers were not completed to ensure that only those approved were terminated.
- The Department did not have an audit plan for Payroll Tax that would ensure employers were audited on a rational and cyclical basis.
- The Tax Administration System included $1 million in credit balances for which no refund had been made to employers.

Update

In October 2003, we contacted the Department of Finance requesting an update as to progress on the comments and recommendations included in our 2001 report. The information provided by the Department in response to our request is outlined below.

Identification and Registration of Employers

2001 Recommendation

The Department should develop a process to more actively identify unregistered businesses which should be paying Payroll Tax to Government.

Action Taken

Departmental officials indicated that the Department matches all Payroll Tax registrants to Canada Customs and Revenue Agency (CCRA) files for payroll deductions. This ensures that all registrants for payroll deductions are also registered for Payroll Tax. In addition, the provincial Registry of Companies has agreed to provide all new companies with the Department's information package regarding Payroll Tax and they have placed a link on their website to the Department of Finance site.

2001 Recommendation

All terminated accounts should be reviewed to ensure that only those authorized have been terminated.

Action Taken

Departmental officials indicated that all accounts are now reviewed by management before termination is approved.

Audit Coverage

2001 Recommendation

Tax Administration should develop an audit plan that would address the audit of all companies for compliance with Payroll Tax regulations on a cyclical basis.

Action Taken

Departmental officials indicated that they compare total payroll reported for Payroll Tax with total payroll reported to the CCRA on T4 summaries. This information is provided electronically by CCRA. All discrepancies are followed up with client contact.

In addition, an audit would be initiated depending on factors such as previous departmental experience and reporting anomalies. The Department feels that these procedures provide appropriate audit coverage for this tax.

Tax Collection Systems and Practices

2001 Recommendation

The Department should review Payroll Tax credit balances in the Tax Administration System to determine whether refunds should be made to employers.

Action Taken

Departmental officials indicated that a credit balance report is reviewed monthly to determine if the credit is legitimate and whether a refund is warranted. A desk audit is performed to ensure there is no apparent liability before the refund is issued.

Department of Forest Resources and Agrifoods

3.2.3 Agriculture Safety Nets
(2001 Annual Report, Part 3.18)

Introduction

In 2001, we performed a review of the Agri-Food Innovation Program (the Program). The Agri-Food Innovation Program represented the majority of the funding under the Agriculture Safety Nets (ASN) Program of the Department of Forest Resources and Agrifoods. The ASN Program is a 60/40 Federal and Provincial cost shared initiative which began in 1996 and which is intended to enhance the long-term stability for the provincial agriculture industry. Funding is available through three separate application processes for industry diversification, human resource development, and market development.

Our review covered the period from 1 April 1999 to 31 March 2001 and included an examination of the background, agreements and policies for the ASN Program. The objectives of our review were to determine whether: there was compliance with the requirements of the agreements and related policies; there was adequate monitoring of funded projects and reporting on the results of Program activities; and the objectives of the Program were met.

Our 2001 review concluded the following:

- Information obtained at the Department indicated that priority for funding under the Program was to be directed to individual agricultural producers in the Province. Our review disclosed that approved projects had not been restricted to activities which provide funding directly to producers, but in many cases were used by the Department to fund Departmental activities or to fund non-producers.

- The average expenditure for funded projects in the three applicant categories varied significantly.

- The Department contravened the *Financial Administration Act* by purchasing four vehicles for divisions which did not have the funding to do so. Payments for these vehicles were inappropriately charged to the ASN activity.

- Numerous instances were identified where the Department did not comply with the Federal/Provincial Agreement and their own policies in the approval of projects, the payment of funds and the monitoring of projects. For example, many projects were funded without being approved by the Management Committee. As well, projects were identified which were questionable as to their eligibility for Program funding. As a result, controls over expenditures were not adequate.

- Reasons provided for rejection or deferral of applications for funding included references to limited funding being available to provide the assistance requested. This reasoning was in contrast to the actions taken later by the Department in transferring available funding from ASN for use for other Departmental activities and through charging expenditures for other Divisions directly to the ASN activity. There was no indication that applications for funding which had been rejected or deferred earlier due to lack of available Program funding, were reassessed prior to these transfers being made.

- The Department did not prepare an annual report relating to ASN activities. While the Department had developed a database of approved projects, the information maintained in this database did not provide evaluative information on the degree of success of the Program in relation to its objectives.

Update

In October 2003, we contacted the Department of Forest Resources and Agrifoods requesting an update as to the progress on the comments and recommendations included in our 2001 report. The information provided by the Department in response to our request is outlined below.

2001 Recommendation

The Department should review the delivery of the ASN Program to determine the appropriateness of expenditure decisions made.

Action Taken

Departmental officials indicated that the administration of the ASN Program, and the new agreement signed to succeed the ASN Program - the Canada-Newfoundland and Labrador Agricultural Policy Framework (APF) - has now stabilized and the appropriate financial administrative support positions have been created and staffed. Documentation of committee decisions on specific projects have become more formalized and file checklists have been put in place to more fully document project approvals. A more formalized and accountable approach has been initiated for the administration and delivery of the APF, including the development of a program information guide, proposal guidelines, and business planning guidelines, and the establishment of a terms of reference for the APF Implementation Committee and a strategic plan for the program. Additionally, the establishment of an industry advisory process and consultation sessions will enhance the accountability of the program delivery.

In addition, Departmental officials indicated that an extensive six-month Program evaluation was completed in January 2003, to meet the deadline of 31 March 2003 established by Agriculture and Agri-Food Canada. The evaluation of the ASN Program was based upon guidelines recommended by the Treasury Board of Canada Secretariat. The following guidelines were followed to examine and assess the Program: Relevance; Progress/success; Impact; Cost effectiveness; and Management effectiveness.

2001 Recommendation

The Department should address the need to report on the ASN Program to provide evaluative information on the degree of success of the Program in relation to its objectives, and to demonstrate its adequacy in meeting the long-term needs of producers.

Action Taken

Departmental officials indicated that the Canada-Newfoundland and Labrador Agreement on Agricultural Safety Nets expired 31 March 2003 and, since an extensive evaluation of the Program had been conducted, it was not considered necessary to prepare an annual report.

With the implementation of the APF the Department has adopted measures to produce an annual report for each of the five years of the APF agreement. This report will detail the Department's progress toward the achievement of the specific targets of the APF as well as highlight the success of the program.

Departmental officials indicated that to ensure data collection methods are most effective for future programs, the application process has been expanded to include an Applicant Profile. This document contains information on individual applicants that will serve to make the evaluation of the APF more efficient, determine how the APF advanced the industry over the five years of the agreement, and provide vital information on the agrifoods industry in general. Data collected from the applicant will be managed using a newly developed Applicant Profile Database that will track information on all APF projects. This data will aid in monitoring the targets and objectives specified for each element of the APF, and will be specifically used in the development of annual reports.

Departmental officials indicated the development of the APF was aided through numerous industry consultation sessions, conducted over a two-year period, on what agricultural producers feel is required to strengthen the agrifoods industry in Newfoundland and Labrador. Additionally, the Department, in conjunction with the Newfoundland and Labrador Federation of Agriculture, is in the process of establishing an industry advisory committee, which will help determine the long-term needs of producers, as well as set priorities for the provincial agrifoods industry.

2001 Recommendation

The Financial Administration Act *should be complied with.*

Action Taken

Departmental officials indicated that procedures have been implemented, such as regular reporting to Project Leaders for budget monitoring and account reconciliations for the appropriate recording of Program expenditures, to ensure compliance with the *Financial Administration Act*.

3.2.4 Fire Suppression and Communications Expenditures (2001 Annual Report, Part 3.19)

Introduction

The Department of Forest Resources and Agrifoods is responsible for the management of all forest and agricultural activities of the Province. In 2001, we performed a review of the Department's statement of expenditure and related revenue, and more specifically those of the Fire Suppression and Communications program. Our review covered the fiscal years ended 1999 to 2001. The Department's gross expenditure exceeded the original budget in each of these years, with the total gross expenditure of $138.4 million for these three years exceeding the original budget of $127.2 million by $11.2 million. For the fiscal years 1999 to 2001, cost overruns in the Fire Suppression and Communications program accounted for approximately $9.3 million of the $11.2 million increase in expenditures over the original estimates.

For the two fiscal years since our initial review actual expenditures incurred in the Fire Suppression and Communications program has continued to exceed the original budget. Figure 1 provides comparative information for the fiscal years ended 2002 and 2003.

Figure 1

Department of Forest Resources and Agrifoods
Gross Expenditure
Years Ended 31 March
($ Millions)

Year	Actual Expenditures	Budget		Amount of Actual Expenditures in excess of Original Budget
		Amended	Original	
2002	$ 2.968	$ 3.489	$ 1.888	$ 1.080
2003	5.501	5.934	2.588	2.913
	$ 8.469	$ 9.423	$ 4.476	$ 3.993

Source: Public Accounts and Estimates

Our review in 2001 concluded the following:

- Increases in the Fire Suppression and Communications program expenditures accounted for approximately $9.3 million or 83% of the Department's cost overruns from 1999 to 2001.
- A total of $565,000 or 63% of the supplies expenditure of $895,000 was made from December 2000 to March 2001, after the normal fire season from mid-April to mid-September. Some of this money was used to buy items such as ATVs, boats, motors, and trailers during the latter part of March 2001 which is the last month of the fiscal year. It is questionable whether such expenditures could be regarded as emergency fire suppression costs for 2000-01.
- The Department contravened the *Financial Administration Act* by purchasing equipment from funds provided by the Legislature for supplies.

- The Department contravened the *Financial Administration Act* by purchasing equipment for wildlife compliance from funds provided by the Legislature for supplies for the Fire Suppression and Communications program.

Update

In October 2003, we contacted the Department of Forest Resources and Agrifoods requesting an update as to the progress on the comments and recommendation included in our 2001 report.

2001 Recommendation

The Department should comply with the Financial Administration Act.

Action Taken

The Department informed us that the Treasury Board Budgeting Division has been working closely with the Department to monitor both expenditure and budgetary transactions in order to more fully differentiate between program costs and normal operating overheads and to undertake a more consistent expense categorization.

Department of Government Services and Lands

3.2.5 Management of Crown Lands (1999 Annual Report, Part 3.26)

Introduction

The Department of Government Services and Lands is responsible for management of the Province's Crown lands. Crown lands comprise approximately 95% of the Province's land mass and as such is one of the Province's most significant natural resources. The management of Crown land is assigned to the Lands Branch of the Department. This Branch is comprised of three Divisions: Crown Lands Administration, Surveys and Mapping, and Land Management. The Branch's responsibilities include processing land applications, preventing unauthorized use of Crown land, resolving conflicts in land use and ownership, producing a map inventory of land in the Province, and developing land use policy and management plans.

In 1999, we performed a review of the management of Crown lands. Our review indicated that some of the Department's systems and procedures for managing Crown lands were not adequate.

Update on Prior Years' Report Items

- The Department did not have a comprehensive and complete land parcel identification system for all land in the Province. As a result, it would be difficult for Government to effectively manage and plan the use of Crown lands.

- Planning for land use within Government was found to be fragmented and covers only small areas of the Province. This is due to the Province not having comprehensive land use policies to facilitate a co-ordinated approach for land use within Government.

- The following observations were noted with respect to application processing:

    - A Departmental report on the Crown Lands Division recognized a number of areas that cause delays in the application process that could be improved.

    - Information maintained in the Department's system for tracking the progress of an application was often inaccurate.

- The Land Management Division did not maintain adequate information on cottage lot developments, including the status of the lot sales and the associated costs and revenues.

- The Department did not maintain a complete listing of all EDGE companies that were leasing Crown land for $1. Also, the Department did not adequately monitor these leases to ensure that the land was being used as intended and that the companies maintained EDGE status.

- The Department had inadequate monitoring procedures to ensure that the lessee had adhered to the terms of the lease with respect to the type of development and the period to complete development.

- The Department did not monitor accounts receivable nor did it perform any regular collection activity.

- Our review of the Province's development of the implementation plan for the establishment of the Geographic Information System (GIS) throughout Government noted several problems including: the Department had been completing the development without an approved Provincial Geomatics Strategy in place; and the data converted into the GIS was found to be incomplete and outdated.

Update

The Department of Government Services and Lands provided an update on the 1999 Crown lands report in both 2001 and 2002. As a result, many of our comments and recommendations have been addressed. In October 2003, we contacted the Department requesting an update as to the progress on the remaining comments and recommendations included in our 1999 report. The information provided by the Department in response to our request is outlined below.

Identification and Use of Crown Lands

1999 Recommendation

The Department should continue efforts to develop a complete land parcel identification system to establish the extent and boundaries of Crown lands.

Action Taken

Departmental officials indicated that work is ongoing to populate the Crown Lands Geographic Information System (GIS) with the outstanding unplotted Crown titles.

To address this issue the titles in the Crown Lands Registry have been reviewed and the information on the new TRACTS computer system updated for accuracy. Presently, the Crown Lands Registry contains over 66,200 land titles comprising approximately 41,800 grants, 11,400 leases and 13,000 licences of occupation. Approximately 20,000 titles remain to be plotted in the GIS. This is down from the last progress update as a result of the Department's review of the Registry, quality control audits and additional human resources.

The Division's Operational Objective to plot at least 4,000 titles per year to completion is currently on target for this fiscal year. This is largely due to the partial release of Government's freeze on two vacant land survey inspector positions and the assistance of temporary employees.

Departmental officials indicated it is difficult to determine a completion date for the project as the Division's objective may not be met next year. The Department is still experiencing a staff shortage in key technical positions required to perform this work. As well, the availability of Geomatics Students may be curtailed in the new year depending on the availability of funding to hire these students. Lastly, demands to address higher priority issues, such as the Labrador Inuit Land Claim Agreement, that require extensive and immediate attention by the Department's land surveyors, will affect the Department's ability to complete the project.

Land Use Policy and Planning

1999 Recommendation

The Department should continue efforts to develop comprehensive land use policies to facilitate a co-ordinated approach for land use within Government. The Department should also review the merits of undertaking more comprehensive land planning in the Province.

Action Taken

The Department of Municipal and Provincial Affairs has been designated by Cabinet to prepare a provincial land use policy. That Department has indicated that the nomination process for representatives on the interdepartmental committee is complete and it is intended to convene the committee in late November 2003. The Department of Government Services and Lands is represented on the committee. The existing data that has already been compiled by the Department of Government Services and Lands will be made available to the committee and can be integrated into the ongoing policy development.

Departmental officials indicated that the Department does not have the existing internal resources to undertake comprehensive land use planning. As an alternative measure, the Department has initiated a pilot Crown land management project using existing resources which will involve significant consultation and coordination of land use designations and policies with other departments. This project is underway and a preliminary field inventory has been completed. It is projected that extensive consultation on the management plan for the pilot area will occur in 2003 - 2004, with the project scheduled for completion by the end of 2004 or early 2005.

Management of Crown Land Leases, Licenses and Grants

1999 Recommendation

As revenue from leases assists in covering costs of managing Crown lands, the Department should participate in the monitoring of the accounts receivable.

The Central Services Division of the Department of Municipal and Provincial Affairs provides financial management services to the Department of Government Services and Lands.

Departmental officials indicated that the Assistant Deputy Minister of Lands along with the Director of Crown Lands and his senior staff meet on several occasions during the year with the Director of Financial Services and his senior staff to discuss various issues regarding accounts receivables, including collections on outstanding accounts. Collection staff of the Department of Municipal and Provincial Affairs are in regular contact with staff at the Lands Branch in order to resolve issues that impact upon the accounts receivables.

It was also indicated that previously reported collection efforts continue. This includes utilizing the Oracle account receivable system to the fullest extent possible which includes utilizing the automated collection letter component for issuing not only statements but also delinquency notices within established time frames; utilizing the system to monitor not only receivables as a whole but also individual accounts; and utilizing the system to prompt action by using the "scheduler" in order to ensure actions are followed up. All this prompts the Department to take action on the delinquent accounts that are greater than 60 days old.

As well, the Department continues a proactive approach to determine more effective and efficient methods to collect accounts. For example:

- Special attention is given to those accounts with a balance of $2,000 or greater that have been outstanding for more than 120 days. Once these accounts have been addressed, lower receivables are dealt with. Departmental officials indicate that these actions have contributed to a decrease in receivables.
- A database of all undeliverable returned mail has been created and new addresses are actively being sought.
- The Department is considering the option of registering claims with the Office of the High Sheriff's Judgement Enforcement Registry database.
- The Department is considering seeking collection through Small Claims Court, foreclosure of lease and property sales or submitting debtor names to the Credit Bureau.

3.2.6 Weigh Scale Operations (2000 Annual Report, Part 3.17)

Introduction

In 2000, we performed a review of weigh scale operations at the Motor Registration Division (MRD) of the Department of Government Services and Lands.

We concluded that the administration of weigh scale activities was not adequate to ensure that the highway safety objectives of the program were being met. There was no planning process in place to ensure the use of available resources was optimized in addressing those objectives. In addition, the hours during which permanent and portable weigh scale operations were operational contained significant gaps, many of which were predictable and could facilitate the avoidance of enforcement activities. As well, considerable judgement was exercised by weigh scale inspectors in the performance of their duties in terms of scheduling shifts, the inspections process, enforcement of legislative provisions, and documentation of their work. Compounding this was the fact that supervision of weigh scale operations was lacking and reporting was virtually non-existent.

In our 2002 annual report, we included an update on the Department's progress towards implementing the recommendations contained in our 2000 report. At that time, Departmental officials indicated measures taken in the areas of planning, hours of operation, guidance to staff and management systems. They also indicated that a number of these areas were subject to further review by the Department.

Update

In October 2003, we contacted the Department of Government Services and Lands requesting an update as to further progress on the comments and recommendations included in our 2000 report. The information provided by the Department in response to our request is outlined below.

Planning

2000 Recommendation

The Department should undertake an analysis of its current enforcement environment and prepare a strategy to deal with the issues identified. Such a strategy should be coordinated with other highway safety enforcement activities.

Action Taken

At the time of our 2002 update, Departmental officials indicated that a new management team was in the process of reviewing the functioning of the fixed highway scales and portable scales operations.

In response to our 2003 update request, Departmental officials indicated that they have completed an evaluation of the functioning of the fixed and portable weigh scale operations and that this is an ongoing process. Based upon their review, officials indicated that:

- Only 3 of the 5 fixed highway scales have the potential to weigh and inspect 100% of the traffic flow in both directions on the Trans Canada Highway. In periods of heavy traffic and/or inclement weather vehicles are not required to cross traffic lanes to enter the scales. Funds are not available to install remote weigh scales on the opposite lanes for operation from a fixed weigh scale site. The remaining 2 scales provide access from a single direction only and can be bypassed by using alternate routes.

- Funds are not available to staff fixed weigh scale stations on a continuous basis.

- Portable weigh scale operations have been evaluated and are currently found to work well. All 5 fixed highway scales require the appropriate deployment of the portable scales to ensure more than the Trans Canada Highway traffic is subject to weight and equipment inspections. MRD is looking to establish additional portable scale sites.

- A number of operational and safety issues were discussed with two major trucking associations in the Province that await necessary approval for funding to address.

- MRD is currently exploring the potential use of weigh in motion scale technology for traffic related to the harbour terminal in St. John's.

Hours of Operation

2000 Recommendation

The Department should review the impact of downtime and predictable hours of work on weigh scale operations. Consideration should be given to the coordination of hours of operation between regions.

At the time of our 2002 update, Departmental officials indicated that a pilot project had commenced in a selected region whereby some weigh scale inspectors operated at a random location and at random times different from their normal hours of work.

In response to our 2003 update request, Departmental officials indicated that the pilot project has been evaluated and deemed successful and that they are continuing to operate the pilot project as staff resources allow. The four portable weigh scale inspectors involved in the project continue to adjust their schedules in cooperation with management to continue the random nature of operations. It is intended to augment the pilot project by use of staff in another weigh scale location, once new staff have adjusted to work at that location. In addition, the potential for the application of weigh in motion technology is seen as holding great promise for future enforcement off the Trans Canada Highway. However, the necessary funding to implement this technology is currently not available in the Department.

Guidance for Staff

2000 Recommendation

The Department should review current procedures in place with a view to improving direction to staff. Among those areas for consideration include: formal policy and procedures, standards for performance, and training.

Action Taken

At the time of our 2002 update, Departmental officials indicated that the MRD was commencing an internal secondment opportunity to assist in the development of revised MRD policies in all areas of operation.

In response to our 2003 update request, Departmental officials indicated that no revised MRD policies have been developed in the area of weigh scale operations. A new policy with respect to leaking fish loads was developed and implemented, and training was provided in the inspection of Dangerous Goods and in the certification of large tanks. In addition, some inspectors were trained to conduct vehicle safety inspections under the standards of the Commercial Vehicle Safety Alliance which further strengthens the level of enforcement for the fixed and portable scales.

Management Systems

2000 Recommendation

The Department should ensure that management receives information necessary for planning, decision making, control, and ensuring compliance with legislative responsibilities.

Action Taken

At the time of our 2002 update, Departmental officials indicated that the management of MRD received statistical information from several outside sources for use in its planning, decision making, control and compliance functions and that information requirements in this regard will continue to be evaluated. Also noted was a change to a centralized process for the development and interpretation of highway enforcement policies.

In response to our 2003 update request, Departmental officials indicated that MRD continues to receive statistical information from CCMTA, AAMVA, Transport Canada, the Department of Works, Services and Transportation and other agencies, but has not developed any additional sources during 2003.

Department of Health and Community Services

3.2.7 Health and Community Services - St. John's Region Direct Program Costs - Child Welfare Program (2001 Annual Report, Part 3.20)

Introduction

Effective 1 April 1998, Government transferred responsibility for the Child Welfare Program from the Department of Human Resources and Employment to the Department of Health and Community Services. Government directed that the direct client service portion of the program be integrated and delivered by the Province's four health and community services boards and as separate components of the Grenfell Regional Health Services Board and the Health Labrador Corporation.

The Child Welfare Program delivered by Health and Community Services - St. John's Region is responsible for the provision of protection and support services to children, youth and their families in the greater St. John's region from seven locations encompassing Conception Bay South in the North to Ferryland in the South and including Bell Island. The direct program costs related to the Child Welfare Program increased from $6.9 million in 1999 to $9.7 million in 2001 or 41%.

Update on Prior Years' Report Items

In 2001, we performed a review of the Child Welfare Program at Health and Community Services - St. John's Region (the Board). The objective of our review was to determine whether client files contained sufficient documentation to ensure that all payments are in accordance with Board policy and are properly approved, adequately supported and accurately recorded in the Board's financial records. Our review concluded that payments made by the Board were not always approved and supported. Specifically:

- Client files were often poorly organized, incomplete and not consistent regarding the documentation included therein. For example, most of the files examined did not contain adequately supported needs assessments or the required case plans and family financial assessments.
- The Board was not adequately reviewing expenditures summaries related to the Provincial pay system. Our audit identified $99,295 paid by the Board that actually belong to another board.
- There were inadequate financial controls and procedures in place to ensure that only authorized payments occurred. This sometimes resulted in overpayments. We also noted the following:
    - Payments were not always approved or were approved in arrears.
    - Supplier invoices were not always on file to support payments.
    - Annual foster home studies were not carried out on a timely basis.
    - There were no formal procedures in place to manage damage deposits paid on behalf of youth.
- The Board did not have systems in place to monitor, collect and report overpayments for all of the Board offices.
- Existing internal controls were not in place in all of the Board offices.
- The Board did not have adequate financial information systems in place to adequately monitor and control expenditures. In particular the systems were not able to produce financial information showing total payments by child on a comparative year basis. The following were noted with respect to monitoring of client costs:

- Social workers were not always aware of all the payments being made to a foster home.
- At the time of the implementation of the *Child, Youth and Family Services Act*, the Board increased the regular foster care rate for 69 of 78 clients to a proposed rate that was ultimately not approved by the Department of Health and Community Services.

Update

In October 2003, we contacted the St. John's Regional Health and Community Services Board requesting an update as to the progress on the comments and recommendations included in our 2001 report. The information provided by the Board in response to our request is outlined below.

2001 Recommendations

The Board should ensure that only properly approved and supported payments are processed.

The Board should ensure that there are adequate systems in place to detect and manage the recovery of overpayments made to or on behalf of clients.

Action Taken

Payment System Errors

The Board indicated that it continues to be significantly involved in the development and implementation of the client pay system. The implementation of this Provincial system has been delayed until January 2005. The lack of a comprehensive client payment system continues to present challenges in monitoring payments to clients.

Client Files

The Board indicated that special segmented files were purchased in order to facilitate the separation of financial and case information. All client files are now organized within these appropriately segmented folders. A policy regarding client documentation and file organization was endorsed by senior management and distributed to staff.

Supporting Payment Documentation

The Board indicated that direction was given to supervisors in March 2002 to ensure the presence of a case plan prior to providing financial approval. Compliance with this direction is monitored by a recently implemented monthly chart audit completed by all program managers and reviewed by the Director of Child, Youth & Family Services. Program Supervisors and staff have also been given direction to ensure a child's eligibility for maintenance and other financial entitlements is fully monitored. This is also audited through the chart audit process. In emergency situations, verbal approval is still granted for case related expenditures. Social workers were advised to record this approval appropriately and compliance is monitored through the audit process. Finally, in order to improve clarity with respect to our delegation practices, a delegation of authority chart was developed and distributed to all managers.

Special Foster Care

The Board indicated that a tracking system was implemented by 1 May 2002 to ensure special rate approvals have a review date that is being adhered to and thus ensuring timely approval.

Monitoring Payment to Foster Parents

The Board indicated that reviews have been completed on all but five cases in the St. John's area. Compliance with this yearly review policy continues to be a challenge in one site due to caseload and workload issues. Management are currently developing a plan to place a resource worker at this office to complete reviews and increase policy compliance.

Independent Living Arrangement (ILA)

The Board indicated that the existence of ILAs continues to be a challenge. The Board continues to seek more cost efficient and effective ways of meeting the needs of young people whose behavior is too complex for existing systems of care. Specifically, the Associate Executive Director for Client Services is leading a Provincial committee designing a new model for residential treatment that will be more cost effective and sustainable than the current approach.

Youth Services

The Board indicated that the policies developed by the Department of Health & Community Services - St. John's Region in 2001 regarding damage deposits and overpayments continue to be implemented.

Child Welfare

The Board acknowledges that the rates for the Child Welfare Allowance were adjusted prior to the *Act* coming into effect, but that all new Child Welfare Allowances since May 2000 have been in compliance with policy.

Department of Justice

3.2.8 Community Corrections (2001 Annual Report, Part 3.23)

Introduction

In 2001, we performed a review of the Community Corrections Branch of the Adult Corrections Division of the Department of Justice. The objectives of our review were:

- to identify and evaluate the policies and procedures in place to manage the operations of community correctional services in the Province;
- to determine the costs incurred in operating community correctional services in the Province;
- to determine whether there are adequate systems and procedures in place to monitor and control associated costs;
- to assess the adequacy of information systems used to manage community correctional services; and
- to assess compliance with relevant legislation.

The Community Corrections Branch is responsible for providing pre-sentence investigation services to assist the Court in determining the most appropriate sentence and to administer community-based sentencing alternatives through which the Courts may satisfy a range of sentencing objectives. These sentencing alternatives include probation supervision, community service order program, conditional sentence order program, restitution enforcement, temporary absence supervision (includes electronic monitoring) and contracted community-based programming.

Update on Prior Years' Report Items

Our 2001 review concluded the following:

Policies and Procedures

Although there was a Policy Manual at the Department, it did not reflect all current practices. As well, there were several areas noted where the Department was not complying with existing policies and procedures.

Community-Based Programs

The Community Corrections Branch provides for community-based intervention programs to offenders to assist in their safe reintegration into society such that the risk of re-offending is reduced. The Branch had two contracts at an annual cost of $456,000, to provide programs in both St. John's ($356,000) and on the West coast of the Province ($100,000). Our review of these contracts disclosed the following:

- There were no proposal calls on these contracts and they had not been approved by Cabinet as required by Government's policy on the hiring of consultants.
- Instances were identified where the minimum number of contracted hours were not provided by the contractor.
- Although the contract in St. John's had been renewed since 1997-98 at the same cost of $356,000, our review indicated that the number of hours of service provided under the contract had been decreasing.

Management Information Systems

The Community Corrections Information System operated by Community Corrections to manage case files was not adequate to meet their needs.

Update

In October 2003, we contacted the Department of Justice requesting an update as to progress on the comments and recommendations included in our 2001 report. The information provided by the Department in response to our request is outlined below.

2001 Recommendation

The Community Corrections Branch should continue in its efforts to review and update its policies and procedures. These policies and procedures should be complete and circulated to all probation officers.

Action Taken

The Department indicated that a completely revised Policy and Procedure Manual has been developed and circulated to all probation officers and assistant probation officers. Regional training was conducted with all Probation Officers between March - June 2003, focussing on Policy and Case Management. Some revisions to the Policy Manual will be completed in the next few weeks. Those revisions will reflect some minor changes and clarifications to previous policy including some format changes. Efforts will focus on making the Manual available in an electronic format.

2001 Recommendation

All policies and procedures in place at Community Corrections should be adhered to. This would include probation officers having contact with offenders at the required frequency.

Action Taken

The Department indicated that the revised Policy Manual clarifies supervision and contact requirements for offenders based on risk level and/or offence type. Operational audits, based on a 10% sample of the probation officer's caseload, are conducted on an annual basis. These audits specifically focus on adherence to supervision standards. As well, regional training has been provided to all probation staff addressing supervision contact standards as well as other new policy changes.

2001 Recommendation

Probation officers should prepare required reclassification forms to support the action taken regarding the monitoring and contact required for offenders.

Action Taken

The Department indicated that the former reclassification assessment has been replaced with a Progress Review form which is required on all offenders on a yearly basis. This assessment, when used in conjunction with other assessments, determines the level of supervision standards required for offenders. All Divisional risk assessments are fully described and explained in the new Policy Manual.

Update on Prior Years' Report Items

2001 Recommendation

The system being used for risk assessment should be corrected so that it produces results consistent with Departmental policy and thus eliminate the need for probation officer overrides.

Action Taken

The Department indicated that Community Corrections continues to utilize standardized and validated risk assessments to determine the risk of re-offending. The Policy and Procedures Manual outlines how offenders are to be supervised according to assessed risk levels. In certain defined instances, i.e., specific offence categories such as sexual offences or family violence cases, the assessed risk level is not over-ridden but the level of supervision is altered to "high" at least for an initial six-month period.

2001 Recommendation

The Chief Probation Officer should resume operational audits to monitor whether probation officers are performing according to set standards.

Action Taken

The Department indicated that yearly operational audits resumed in 2001 and were maintained in 2002 and 2003. Staff are provided constructive written feedback of the results of those audits.

2001 Recommendation

The electronic monitoring program should be reviewed to determine whether it is cost effective and whether the Department's objectives are being met.

Action Taken

The Department indicated that the Electronic Monitoring program has been expanded to include selected conditional sentenced offenders. An evaluation report on this expansion will be completed by 30 November 2003. The Department reports that the average daily number of offenders being electronically monitored is 25-27 translating into a utilization rate of 85-90% of available electronic monitoring units.

Update on Prior Years' Report Items

2001 Recommendation

The Department should comply with Government policy regarding the acquisition of professional services. The Department should also ensure that it receives the services outlined in the contract.

Action Taken

The Department indicated that contracts are signed annually with the John Howard Society to provide community-based programming in St. John's and on the west coast. As per section 3(2)(e) of the *Public Tender Act*, since the John Howard Society is deemed to be a sole source contractor, tenders are not invited. Consistent with Government policy, yearly documentation of these contract awards is submitted to the Government Purchasing Agency and Treasury Board. The Minister of Works, Services and Transportation subsequently files notice annually with the House of Assembly that these untendered contracts have been awarded. A process for regularly reviewing compliance with the contract provisions is being implemented under the leadership of the Chief Probation Officer. Consideration is also being given to the need for a formal independent assessment in 2004-05.

2001 Recommendation

The Department should review its computerized systems with a view to having necessary management information available to adequately manage its programs and eliminate inefficiencies associated with the entry of duplicate information.

Action Taken

The Department indicated that a new offender information system (PCOMS) has been designed and implemented within all Community Corrections offices. PCOMS is fully integrated with the Adult Institutional Services Branch, thus virtually eliminating duplication of data entry. A user committee with representatives of Community Corrections meets regularly to address issues and explore enhancements.

2001 Recommendation

The Adult Corrections Division should endeavour to prepare its annual report on a timely basis.

Action Taken

The Department indicated that efforts are underway to obtain Divisional statistics on a timely basis to assist with completion of annual reports. The Information Technology Division is now developing a standardized report format for PCOMS which will provide data to complete Divisional annual reports on a more expeditious basis.

Department of Mines and Energy

3.2.9 Prospectors and Industry Assistance Program (2001 Annual Report, Part 3.25)

Introduction

In 2001, we reviewed the Prospectors and Industry Assistance Program of the Department of Mines and Energy. The objective of this review was to assess whether there were adequate systems and procedures in place at the Department to administer the Prospectors and Industry Assistance Program. This Program consists of three main components: the Junior Company Exploration Assistance Program, Prospectors Assistance Program and Dimension Stone Incentive Program.

We concluded that there were weaknesses with respect to project controls relating to: assessments of project proposals; monitoring of approved projects; evaluations of completed projects; and review of support for claimed project expenditures. In addition, the database maintained by the Department was incomplete and project information was not being adequately tracked for project and Program monitoring purposes.

Update

In October 2003, we contacted the Department of Mines and Energy requesting an update as to progress on the comments and recommendations included in our 2001 report. The information provided by the Department in response to our request is outlined below.

2001 Recommendation

The Department should ensure that standard proposal/application formats are in place.

Action Taken

Departmental officials indicated that standard applications are now in place for all three programs. There are sections that are now completed on the application form which indicate any recommended information that has to be provided. There is also an approval/additional information requested section which must now be completed.

2001 Recommendation

The Department should ensure that at least two quotes for required work are obtained and placed on file before project approval.

Action Taken

Departmental officials indicated that a schedule is now attached to all contracts. Three quotation invitations are required where possible; however, there are occasions where only one or two companies are able or qualified to bid. Associated companies/contractors may offer quotes as well; however, bids must be equivalent to standard industry costs.

2001 Recommendation

The Department should ensure that project selection assessments are properly completed.

Action Taken

Departmental officials indicated that Selection Committee assessment forms are now being completed by at least two members. Expert Supplementary Reviewers are used as required. Information that is received regarding noted deficiencies is re-circulated or checked with respective Selection Committee member(s) when received.

2001 Recommendation

The Department should ensure that progress and final reports are properly prepared, received, and reviewed and are in accordance with the contract.

Action Taken

Departmental officials indicated that a formal checklist for application review and final report evaluation are now in place. The Final Report assessment/evaluations are now completed, signed and dated. In addition, acceptable Final Reports are required before payment is provided.

Update on Prior Years' Report Items

2001 Recommendation

The Department should ensure that project evaluations are properly prepared, signed and dated.

Action Taken

Departmental officials indicated that the Final Report checklist is now in place to ensure that the work commitment is carried out and that all required documentation is received. The "Comments" section of all PAP Final Reports is completed to evaluate/assess acceptability of each project. The Final Reports are signed and dated by the reviewer.

2001 Recommendation

The Department should ensure that Departmental inspections, audit or independent audits of applicant records are completed as necessary based on defined circumstances.

Action Taken

Departmental officials indicated that, to date, related company invoices have been equivalent to standard industry costs and as such an audit has not been deemed necessary.

2001 Recommendation

The Department should ensure that site visits are properly conducted.

Action Taken

Departmental officials indicated that the intent is to visit all sites, however, it is not reasonably possible to visit 100% of the sites. In particular, JCEAP now supports airborne surveys and, as such, field sites are not possible.

2001 Recommendation

The Department should ensure that adequate support is received from the applicant relating to project expenditures.

Action Taken

Departmental officials indicated that itemized costs are requisite and paid-in-full receipts or copies of cancelled cheques are required for proof of payment. If a receipt/cheque is in doubt, a follow-up call to a contractor/vendor is carried out to confirm payment of invoices.

2001 Recommendation

The Department should ensure that a complete database of information is maintained.

Action Taken

Departmental officials indicated that all proposals/applications, date of field visits and project information are now recorded in the database.

Department of Tourism, Culture and Recreation

3.2.10 Art Procurement (2000 Annual Report, Part 3.23)

Introduction

In 2000, we performed a review of the Art Procurement Program administered by the Cultural Affairs Division of the Department of Tourism, Culture and Recreation. Our review concluded that there were serious deficiencies in the management and control of art work acquired under the Art Procurement Program.

In our 2002 annual report, we included an update on the Department's progress towards implementing the recommendations from our 2000 report. At that time, Departmental officials indicated that progress had been made including initial development of a relational database to track the movement of art work, the designation of individuals in each department to be responsible for the handling and movement of art work in the respective departments, and cessation of the practice of destroying documentation relating to the acquisition of art work.

Update

In October 2003, we contacted the Department of Tourism, Culture and Recreation requesting an update as to the progress on the comments and recommendations included in our 2000 report. The information provided by the Department in response to our request is outlined below.

2000 Recommendation

The Department should develop policies to control and account for the art work acquired under the Art Procurement Program. These policies should include requirements for periodic physical counts, a process to record the movement of art work, and a program for the regular conservation and maintenance of art work.

Action Taken

The Department indicated that in November 2003 a draft "Art Procurement Program Inventory Control Policy" was developed. This policy describes the Art Procurement Program, the players involved, the processes, the database structure, the acquisition of art work, the initial allocation of art work, ongoing monitoring and compliance, and the process for the removal of art work from the government collection.

It was also indicated that a new record-keeping system is being implemented to ensure heightened accountability for the art work. This record-keeping system includes forms related to the drop-off and pick-up of art work, art work identification, initial allocation, art work allocation, job log, periodic counting and annual accounting. Annual checks of art work will regularly identify art work requiring conservation or repair. Sequential inventory numbering will be used to assist in the monitoring of art work.

The Art Procurement Database is continuing to be developed and is nearing completion. This relational database identifies the current physical location of each art work and is placed on the Department's server which is backed up every 24 hours. In addition, CDs are being burned, providing further backup.

Departmental staff are in the process of conducting a physical audit in all locations. It is anticipated that this physical count will be completed during December 2003.

3.2.11 Public Records
(2000 Annual Report, Part 3.24)

Introduction

In 2000, we performed a review of public records held by departments and agencies of the Crown. The overall objective of our review was to assess whether the Records Management Branch of the Provincial Archives and the various departments and agencies of the Crown are complying with all of the legislative responsibilities, requirements and mandates relating to public records and to assess whether there are adequate systems of control in place to ensure compliance with legislation. Our review included an assessment of the work of the Records Management Branch in providing assistance, advice and direction to departments and agencies of the Crown.

As a result of our review we concluded that records management in Government was not adequate.

In our 2002 annual report, we included an update on the Department's progress towards implementing the recommendations from our 2000 annual report. At that time, Departmental officials indicated that some progress had been made with each of those recommendations.

Update

In October 2003, we contacted the Department of Tourism, Culture and Recreation requesting an update as to the progress on the comments and recommendations included in our 2000 report. The information provided by the Department in response to our request is outlined below.

2000 Recommendations

The Records Management Branch should counsel all departments and Crown agencies in the management and preservation of their records, develop a uniform file classification system, and ensure that there is consistency in practices and controls over the care, custody, retention and disposal of public records held by these entities.

The Records Management Branch should ensure that the Information System for Administrative Records is implemented by all departments and Crown agencies.

Action Taken

Departmental officials indicated that the Provincial Archives of Newfoundland and Labrador (PANL) is continuing to implement IMSAR (a uniform file classification system for administrative records) on a pilot basis. PANL is continuing to provide training in records management principles and practice to departments and Crown agencies.

2000 Recommendation

The Records Management Branch should ensure that inactive records stored at the Provincial Records Centre are disposed of in a timely manner.

Action Taken

Departmental officials indicated that this continues to be a difficult mandate to complete due to limited resources for records management within all Government departments. PANL has disposed of 2,320 boxes of inactive records from the Records Centre since 1 January 2001.

2000 Recommendation

The Records Management Branch should fully comply with the direction of Cabinet and provide direction to all departments and all Crown agencies respecting the care, custody, control, retention and disposal of operational records and computerized records.

Action Taken

Departmental officials have indicated that PANL continues to offer its Records Management Course and continues to assist departments wherever possible. PANL has published and distributed a brochure outlining its record management services to government. The brochure was distributed to all government employees in April 2002.

3.2.12 Newfoundland and Labrador Film Development Corporation (2001 Annual Report, Part 3.26)

Introduction

In 2001, we performed a review of the Newfoundland and Labrador Film Development Corporation (the Corporation). The objectives of our review were to determine: what policies and procedures the Corporation had established to govern its operations; and whether the Corporation had complied with these policies and procedures.

The Corporation was incorporated in October 1997. The purpose of the Corporation is to promote the development of, and to stimulate employment and investment in, the Newfoundland and Labrador film and video industry by providing financial and other assistance. The Corporation's Board of Directors is appointed by Government.

In 2001, we concluded that the Corporation did not complete the three year review of its mandate as directed by Cabinet in 1996.

Update

In October 2003, we contacted the Corporation requesting information as to whether the review of its mandate had been completed. The information provided by the Corporation in response to our report is outlined below.

2001 Recommendation

The three year review of the Corporation's mandate as directed by Cabinet in 1996 should be undertaken.

Action Taken

Corporation officials provided a copy of a report entitled "Growing the Local Film Industry" as well as some background information such as the study's terms of reference. The Corporation also provided a copy of it's Accountability Framework. The Corporation indicated that this Accountability Framework will provide the measures by which it works towards the ten goals contained in its Strategic Plan.

Treasury Board Secretariat

3.2.13 Human Resources Management Information Systems (1999 Annual Report, Part 3.7)

Introduction

The payment of salaries and benefits for public employees is Government's largest expenditure. Total salaries and benefits, including government departments and Crown agencies, totalled $1.9 billion in 2002-03 ($1.7 billion in 2001-02). Of this $1.9 billion, Government departments accounted for $378 million comprising $330 million in salaries and $48 million in employee benefits. Given the magnitude of these expenditures, it is critical that Government have the ability to analyse, monitor and control its human resources and related expenditures.

Government established a Steering Committee in 1987 to develop a comprehensive computerized Human Resource Management Information System with implementation scheduled for early 1993 at an estimated cost of $2.1 million. The human resource management information system project was intended to integrate payroll and other human resource systems within Government.

In 1993, we examined human resource management at Treasury Board Secretariat and reported that there was a delay in implementing the planned system. We also reported that existing human resource systems and information in Government were as diverse and incompatible as they were in 1987 when the project started.

In 1994, Government agreed in principle with a single centralized payroll system to administer the compensation budgets of all boards, agencies and commissions and directed Treasury Board to proceed with a feasibility study and development of an implementation plan on a priority basis.

In 1999, we conducted a review of the development of the Human Resource Management Information System to determine the progress that was made since 1987. We concluded that as at 31 March 1995, Government had spent approximately $4.3 million on this system and that no further significant costs had been incurred. At the time of our review, Government had only developed or partially developed 5 of the 17 functional areas that were identified as necessary to address in order to have the required system, and had made enhancements to 4 functional areas. We concluded that Government still did not have an adequate Human Resource Management Information System.

In 2002, Officials of the Treasury Board Secretariat indicated that the Secretariat would continue to choose priority human resource functions for analysis and that system developments would be proposed where it is judged the benefits of automation will justify the expenditures of implementation. Officials advised that in 2002, a major human resource planning exercise would be completed which would likely help identify areas for possible future automation of human resource management information.

Update

In October 2003, we contacted the Treasury Board Secretariat requesting an update on the status of the human resource planning exercise that was scheduled for completion in 2002 and a summary of the results of that exercise. The information provided by the Secretariat in response to our request is outlined below.

1999 Recommendation

Treasury Board Secretariat should implement a comprehensive human resource management information system.

Action Taken

Officials of the Treasury Board Secretariat indicated that in March 2003, Government completed a plan that will give strategic direction to the human resource function for the next three to five years. Implementation of the plan is in progress.

It was indicated that one goal of the human resource strategy is to improve the use of reliable human resource information in decision-making, planning and management. However, rather than initiate an extensive systems development project, the strategy is to incrementally enhance the capacity and uses of Government's existing information systems. In the current fiscal year, the priorities are introduction of software that provides each department with direct reporting access to a range of HR data stored in Government's central information systems, completion of preliminary work to define the human resource information needs of the Province's health care system, and completion of preliminary work prior to introduction of a service-wide leave and overtime management system.

In addition to the items highlighted above, Treasury Board Secretariat, with input from departmental Human Resource Directors, has completed an extensive list of potential information initiatives. This list will be revisited on a yearly basis to determine the priorities for information initiatives.

3.2.14 A Review of Overtime (2001 Annual Report, Part 3.8)

Introduction

In 2001, we performed a review of overtime incurred by Government. For the year ended 31 March 2001, employees of Government departments were paid salaries of $288.3 million which included $13.5 million in overtime compensation. Overtime compensation is provided to employees who are required to perform duties outside normal working hours. Compensation for overtime is determined in accordance with various policies and collective agreement provisions. The objectives of our review were to determine:

- the amount of overtime paid to employees of Government departments over the five years from 31 March 1997 to 31 March 2001;

- the amount of overtime owed to employees of Government departments for the five years ended 31 March 1997 to 31 March 2001; and

- whether adequate controls were in place to ensure overtime was authorized and paid in accordance with collective agreement provisions and Government policy.

Our review identified some deficiencies in the management and control of overtime compensation. We concluded:

- Over the five year period reviewed, overtime payments increased significantly, from $7.7 million for the year ended 31 March 1997 to $13.5 million for the year ended 31 March 2001 which represented an increase of 75% over those five years.
- For the three fiscal years, 1999 to 2001, Government significantly exceeded its budget for overtime by $4.4 million, $5.6 million and $5.5 million respectively.
- Many of the transfer of funds to and from salaries for the year ended 31 March 2000 did not comply with the Government's *Transfer of Funds Policy*.
- Government knew that as at 31 March 2001, $4.2 million in accumulated and unpaid overtime was owed to employees. However, because of inadequacies in leave systems in most departments, it did not have details on the total overtime earned and banked during the year or the amount which had been used as paid leave.
- Overtime payments to employees were not always accurate.

Update

In October 2003, we contacted the Treasury Board Secretariat requesting an update as to the progress on the comments and recommendations included in our 2001 report. The information provided by the Secretariat in response to our request is outlined below.

2001 Recommendation

Government should review overtime incurred to ensure it is reasonable and to determine whether changes can be made to reduce the amount of overtime being incurred, while at the same time implement information systems to provide details of overtime.

Action Taken

Officials of the Treasury Board Secretariat indicated that an Overtime Committee had completed its review and reported to Treasury Board in September 2002. Given the high percentage of total overtime incurred by the Department of Works, Services, and Transportation and the Department of Justice, they were a particular focus of the review. Forty-two (42) recommendations were made - some specific to the two departments reviewed and others applicable to all departments. It was anticipated that through improving management practices to more efficiently utilize resources, through enhancement of monitoring processes, and through improvements in controls, procedures and policies, cost reductions would result. The Department of Works, Services and Transportation and the Department of Justice advised at the time that the majority of the recommendations identified had already been implemented when the report was completed or would be implemented in the near future.

It was indicated that as a result of the review by the Overtime Committee, all departments were required to ensure overtime expenditures are monitored and controlled more closely, and to follow the Treasury Board Overtime Monitoring Guidelines which were issued in October 2002.

As well, it was indicated that the Comptroller General's Office has continued to monitor overtime on a Government-wide basis and specific departments have been written/contacted on occasion to provide details and explanations on overtime incurred. In April 2003, a report was provided to Treasury Board which showed that overtime expenditures for the calender year 2002 have decreased by $3.6 million or 23% from the calendar year 2001. Treasury Board Secretariat considers that the attention drawn to overtime expenditures, various initiatives of specific departments and the Overtime Monitoring Guidelines have had a positive effect in reducing total expenditures in this area.

3.2.15 A Review of Succession Planning (2001 Annual Report, Part 3.9)

Introduction

Human capital is the collective knowledge, skills, and experience of an organization's staff. Investment in human capital within the public service is significant. Recorded in Government's Summary Financial Statements for the year ended 31 March 2001 were salaries and employee benefits of $1.5 billion which represented 36% of total expenditure. In 2001, we conducted a review of succession planning with a focus on central Government operations which recorded $337 million in salaries and employee benefits in the Consolidated Revenue Fund Financial Statements for the year ended 31 March 2001. The objectives of our review were to develop a demographic profile of the core public service at 31 March 2001, with comparative historical profiles as of 1987, 1992 and 1997, and to determine whether Government had programs in place to adequately maintain its human capital.

Our review in 2001 concluded the following:

- Over the fifteen year period from 1987 to 2001 inclusive, there was a significant increase in the average age of the core public service. From 1987 to 2001, the average age of the core public service increased from 38.8 years to 42.4 years, an increase of 3.6 years or 9.3%.
- During the same period, the age distribution of the public service changed dramatically with the percentage of employees less than 35 years of age decreasing from 41% to 21%, while employees between 36 and 49 years of age increased from 40% to 55% and employees aged 50 years and older increased from 19% to 24%.
- By 2007, 25% of the core public service including 46% of Executive and 41% of Senior Managers would reach the age of 56 or older and may retire. By 2012, as least 42% of the core public service, including 76% of Executive and 70% of Senior Managers may retire. These statistics indicate the need for succession planning in Government including recruitment and retention strategies, and training and development.
- While Treasury Board Secretariat and Government departments have identified the need for succession planning as a significant human resources issue, plans of actions to address the issue were isolated, were general in nature, or were planned for development in 2002 and beyond. We further concluded that unless Government implemented effective human resource strategies to address the upcoming retirement of a significant portion of the core public service, including recruitment and training, the attrition rate due to retirement had the potential to leave a significant gap in the knowledge, skills and experience required to provide a quality public service.

Update on Prior Years' Report Items

Update

In October 2003, we contacted the Treasury Board Secretariat requesting an update as to the progress on the comments and recommendations included in our 2001 report. The information provided by the Secretariat in response to our request is outlined below.

2001 Recommendations

Treasury Board Secretariat, in conjunction with the Public Service Commission and departments, should immediately undertake a review of future staffing needs to ensure that the necessary programs are in place to maintain their human capital.

Treasury Board Secretariat should ensure that the necessary information systems are in place to provide human resources management information required for effective planning.

Action Taken

Officials of the Treasury Board Secretariat indicated that Government has completed a plan that will give strategic direction to the human resource function for the next 3 to 5 years and that implementation of the plan is in progress. Recruitment, retention and succession management is one of the main issues identified in the human resource strategy. In response to this issue, the following initiatives have been taken:

- A procedural framework is being developed to permit departments to do succession planning while remaining in compliance with the merit principle as required by the *Public Service Commission Act*. The intent of this procedural framework will be to ensure continuity and retention of corporate knowledge in critical positions.

- All departments have identified positions which represent recruitment/retention challenges.

- The Public Service Commission had reconfigured the Public Service Internship Program (formerly the Graduate Recruit Program) to target intern recruitment towards positions that are hard-to-fill or that require advance staffing strategies to ensure retention of corporate knowledge.

- Government is expanding and targeting its leadership and management development activities to continuously expand its pool of people suited to executive and senior management positions.

3.2.16 Labrador Transportation Initiative Fund (2001 Annual Report, Part 3.11)

Introduction

In 2001, we performed a review of the Labrador Transportation Initiative Fund (the Fund). The objective of our review was to determine whether the Province could construct the Trans Labrador Highway and maintain the Labrador ferry services using the money received from the Federal Government.

In March 1997, the Federal and Provincial governments agreed that the Province would assume all responsibility for the operation of marine freight and passenger services on and to the coast of Labrador in exchange for $340 million plus interest. The Province received $347.6 million in December 1997 as a cash settlement, together with related ferry service infrastructure. In January 1998, $349.2 million, representing the $347.6 million plus accrued interest, was transferred from the Province to the Fund.

The Fund operates under the authority of the *Labrador Transportation Initiative Fund Act*. Its affairs are managed by a Board of Management appointed by the Lieutenant-Governor in Council. The objective of the Board is to authorize payments from the Fund to the Consolidated Revenue Fund of the Province of Newfoundland and Labrador for the construction of the Trans Labrador Highway, maintenance of marine and ferry services to Labrador, and other Labrador initiatives related to transportation which the Lieutenant-Governor in Council may approve.

During 1998, government prepared a seven year expenditure projection relating to the Labrador ferry operation and the construction of the Trans Labrador Highway from the Fund. At that point in time Government expected that the vessels could be operated in perpetuity even after funding the construction of the Trans Labrador Highway. Government estimated that the Trans Labrador Highway would be completed in 2002-03 at a total cost of $190 million, that the cost of the Labrador ferry operations to 2003-04 would be $83.3 million, and that there would be sufficient monies left in the Fund to pay operation costs of the Labrador ferry services in perpetuity.

Our 2001 review concluded that the Fund would be depleted earlier than 2014-15, based upon updated cost estimates prepared by Government in

May and November 2001. In May 2001, Government updated its cost estimates which indicated that the Fund would be depleted by 2014-15 after construction of Phases I and II of the Trans Labrador Highway at an estimated cost of $190.4 million, and estimated annual operating costs for the Labrador ferry services from 2002-03 to 2014-15 ranging from $13 million to $15 million. In November 2001, Government further updated its cost estimates to operate the Labrador ferry services to $19.5 million for both 2001-02 and 2002-03, resulting in the Fund being depleted earlier than 2014-15.

Update

In October 2003, we contacted officials of the Fund to determine if there have been any additional revisions to the estimated costs of operating the Labrador ferry services and the construction of the Trans Labrador Highway since our 2001 review, and to determine the impact that these revisions may have on the expected depletion of the Fund. In addition, we enquired about any actions which may have been taken to address the expected shortfall in the Fund. The information provided by officials of the Fund in response to our request is outlined below.

We were informed that the fund has expended approximately $62.66 million on highway construction and approximately $37.26 million for ferry operations for the fiscal years ending 31 March 2002 and 2003, leaving a fund balance of approximately $107.44 million at the beginning of the 2003-04 fiscal year. If Phase III of the Transportation Labrador Highway is funded by the Fund, the Fund is expected to be fully depleted by the 2005-06 fiscal year. This is based on projected costs provided by the Department of Works, Services and Transportation and projected interest revenue as shown in Figure 1.

Figure 1

Projected Costs and Interest Revenue
($ Millions)

	2003-04	2004-05	2005-06
Beginning balance	$107.44	$77.54	$31.24
Projected highway construction costs	(12.90)	(31.65)	(17.00)
Projected ferry operation costs	(19.15)	(16.20)	(14.86)
Projected interest revenue	2.15	1.55	0.62
Ending balance	**$77.54**	**$31.24**	**$0.00**

Once the Fund has been fully depleted, the remaining construction on the Trans Labrador Highway will be dealt with through Government's budgetary process. As for the ferry operations, the Department of Works, Services and Transportation will be responsible for maintaining operations, which will also be handled through Government's budgetary process.

Department of Works, Services and Transportation

3.2.17 Government Air Services Division (2000 Annual Report, Part 3.25)

Introduction

In 2000, we conducted a review of the Air Services Division of the Department of Works, Services and Transportation. The objectives of our review were to:

- identify the policies and procedures in place to effectively plan for the air transportation needs of the Province;
- determine whether there were adequate systems and procedures in place for the acquisition and disposition of Government-operated aircraft;
- determine whether there were adequate systems and procedures in place for the maintenance of Government-owned aircraft;
- assess the adequacy of information systems used to manage Government aircraft services;
- determine whether there were adequate systems and procedures in place to monitor aircraft utilization and control associated costs; and
- assess compliance with relevant legislation.

Our 2000 review indicated that the Department's systems and procedures for operating the Air Services Division were not adequate. Issues were identified relating to aircraft acquisition and disposal, the inventory management system, management of aircraft costs, aircraft operations and human resource management.

Update on Prior Years' Report Items

Update

The Department of Works, Services and Transportation provided an update to the 2000 Air Services report in 2002 indicating that some of our comments and recommendations had been addressed. In October 2003, we contacted the Department of Works, Services and Transportation requesting an update as to further progress on the comments and recommendations included in our 2000 report. The information provided by the Department in response to our request is outlined below.

Aircraft Acquisition and Disposal and Inventory Management System

2000 Recommendation

Air Services should implement adequate controls over its inventory.

Action Taken

Departmental officials indicated that the two Canso water bombers remain in storage in Gander but have been donated to the Towns of Stephenville and Goose Bay. The Department has not been contacted by the towns regarding their removal.

It was also indicated that the WinAir inventory and maintenance system has been audited by Transport Canada without issue. There has been a reduction in a number of inventory areas, with the Department's objective of optimum levels of inventory to be achieved in two years. It is more economical to reduce inventory through usage rather than other means given the seasonal nature of Air Services, the specific nature of aircraft parts and the essential nature of the services provided.

Management of Aircraft Costs

2000 Recommendation

Financial systems should be better utilized to identify the costs of operating each individual aircraft.

Action Taken

Departmental officials indicated that the 2002-03 expenditures for Air Services was $10.4 million. This is comprised of $3.9 million in operating costs for the 6 Canadair CL-215 water bombers, $165,000 in operating costs for the Cessna fire spotter, $1.8 million in operating costs for the King Air air ambulance, $960,000 in aircraft charters, $2.9 million grant to the Grenfell Health Board to operate another air ambulance and $662,000 in costs incurred to relocate from St. John's to Gander.

From these costs and by monitoring hours flown, the Department has developed rates for each of the Government operated aircraft as follows:

Canadair CL-215	$3,300 daily fixed rate plus $3,000 hourly (nationally agreed rates)
Cessna	$615/hour (based on cost of 268 hours flown in 2002-03)
King Air	$1,240/hour (based on cost of 1,462 hours flown in 2002-03)

For the Canadair aircraft, the hourly rate based on 2002-03 costs (622 hours flown for 6 aircraft) would be $2,615 daily fixed rate plus $1,699 hourly. However, it is the nationally agreed rate that the Department would charge for the use of its water bombers by others.

3.2.18 Government Purchasing Agency (2001 Annual Report, Part 3.30)

Introduction

The Government Purchasing Agency was originally created in 1973 by *Section 49* of the *Department of Public Works and Services Act*. The *Act* provided that the Government Purchasing Agency's primary duties were to acquire all services that were required by the departments and agencies of the Crown. The *Act* granted the Agency the authority to delegate purchasing authority to the various departments and agencies if the Director of Purchases is satisfied that it is in the interest of efficiency to do so. The *Act* also required that the Agency invite tenders for services except in certain specific circumstances.

From 1973 to 1983, the Government Purchasing Agency was independent of Government departments and was attached to the Department of Public Works and Services for administrative purposes only. However, in 1983 as a result of an amendment in the *Act*, the Government Purchasing Agency was made a part of the Department of Public Works and Services and later, as a result of Government re-organization, was made a part of the Department of Works, Services and Transportation. This 1983 amendment resulted in a loss of independence for the Government Purchasing Agency.

The role of the Government Purchasing Agency is to be responsible for all purchases on behalf of government departments and if deemed efficient on behalf of all agencies of the Crown. The Agency may delegate purchasing authority to departments and agencies if it deems it efficient to do so.

However, the Agency is responsible to oversee and monitor the purchasing activities of these entities. As part of its responsibilities, the Agency must prepare a monthly Public Tender Exception Report for the Minister of Works, Services and Transportation for tabling in the House of Assembly.

Summary

Our 2001 report indicated that approximately 63% of expenditures made by the various Government departments for supplies and services and 65% of the public tender exceptions tabled in the House of Assembly were purchases of the Department of Works, Services and Transportation. This indicates that the great majority of the work of the Government Purchasing Agency is centered around the Department of Works, Services and Transportation, of which it is a part. The fact that the Agency is a part of the Department of Works, Services and Transportation questions whether the Agency can function in a manner which is independent of the Department.

The Government Purchasing Agency is required to assess, critique and report on purchases made by all departments and other entities required to comply with the *Public Tender Act*, including the Department of Works, Services and Transportation. To accomplish this, it must be in a position of independence.

Update

In October 2003, we contacted officials of the Department of Works, Services and Transportation requesting an update as to the progress on the comments and recommendations included in our 2001 report. The information provided by the Department in response to our request is outlined below.

Recommendation

Government should draft legislation for consideration by the House of Assembly which ensures that, to the extent possible, the Government Purchasing Agency is independent of any department.

Action Taken

The Department indicated that it is bound by the *Public Tender Act* and *Regulations* and therefore enforces all the requirements of the legislation. Policies and procedures, which apply to all departments, along with regulations and legislation provide for objectivity in the procurement process. The *Public Tender Act* does permit the acquisition of goods and services through the use of exceptions, which sometimes have to be exercised in emergency and other situations to effectively and efficiently provide services to the public.

The Department has analyzed and reviewed options related to a more independent structure for the Government Purchasing Agency and is putting this analysis forward for consideration by Government.

Department of Youth Services and Post Secondary Education

3.2.19 Memorial University of Newfoundland (1994 Annual Report, Part 4.9)

Introduction

In 1994 and again in our annual updates from 1996 to 2002 we concluded that the Department of Education, now the Department of Youth Services and Post Secondary Education, did not have an adequate system of accountability in place over grants paid to Memorial University of Newfoundland. Although the University received approximately $138 million in Provincial grants during 2002-03, there was still inadequate accountability over this funding.

We have recommended that a system of accountability be established over grants to the University. This system should include, but not be restricted to, the following components:

- Roles, responsibilities and duties of the Department of Youth Services and Post Secondary Education and Memorial University should be well defined and communicated. These should be included in legislation and further defined in policy.
- There should be adequate reporting to the Department of Youth Services and Post Secondary Education and to the House of Assembly. This includes both financial and performance monitoring.
- The system of accountability should be strengthened by an independent audit process to assess the fairness of the University's representations on performance and to assess management systems and controls.

Update

In October 2003, we contacted the Department of Youth Services and Post Secondary Education to ascertain any progress on the comments and recommendations included in our 1994 report.

Departmental officials indicated that, in the Department's opinion, reporting accountability and communications with the University has improved immensely over the past couple of years. In addition to the receipt of standard financial reports which include audited financial statements, budget submissions and periodic financial information exchanged throughout the year, the Department receives, reviews and converses with University staff on numerous issues which include, by categorization, Strategic Framework and Strategic Framework Action Plan, reports on student performance, student surveys, academic programs and research.

3.2.20 College of the North Atlantic (2000 Annual Report, Part 3.9)

Introduction

In 2000, we performed a review of the College of the North Atlantic. Our review was directed to assessing the College's financial position, and reviewing the adequacy of controls over capital assets, purchasing and payroll.

In 2000, we concluded that the financial position of the College had deteriorated after the reorganization of the college system in 1997. In addition, we found that there were significant weaknesses in controls over capital assets, the College did not always comply with the *Public Tender Act*, there were serious problems in the processing and payment of travel expenditures, there was no monitoring of cellular phone costs, there were no policies on the acquisition and administration of cellular phones, and there was inadequate monitoring of staff positions.

In our 2002 annual report, we included an update on the College's progress towards implementing our 2000 recommendations. At that time, College officials indicated that they had addressed most of the observations and recommendations identified in our 2000 report. The College had developed and implemented policies regarding identification of capital assets, salary position monitoring, and cell phone usage, and maximum effort had been expended to ensure compliance with the *Public Tender Act* and Government's personnel policies and procedures. As well, an annual report is submitted to the Minister as required by the *College Act, 1996*.

Update

A review of the College's 2003 audited financial statements identified that the College incurred an operating deficit of $1.7 million, prior to unfunded adjustments for severance and vacation pay of $2.0 million. As a result of this operating deficit, the College's accumulated deficit increased from $6.3 million in 2002 to $10.0 million in 2003. In addition, a review of the external auditor's management letter for the year ended 31 March 2003 identified weaknesses in procedures related to the recording and disposing of capital assets, and updating of the capital asset ledger.

In October 2003, we contacted the College requesting the details of initiatives implemented by the College to address the increases in the accumulated deficit, and initiatives implemented to identify, record and monitor its capital assets. The information provided by the College in response to our request is outlined below.

Accumulated Deficit

2000 Recommendation

The College should monitor its financial position closely.

Action Taken

Officials of the College indicated that the accumulated deficit of $10.0 million is comprised of three components - operating deficit of $0.3 million, capital surplus of $5.1 million, and severance/annual leave deficit of $14.8 million.

The College has budgeted to eliminate the operating deficit in the current fiscal year through cost reduction measures. The College is in the process of preparing projections to 31 March 2004 and will be completing second quarter reviews and financial statements in the near future.

The capital accumulated surplus represents the College's equity in capital assets net of the deferred contributions of capital grant received from the Provincial Government, as well as funding received from external agencies such as the Atlantic Canada Opportunities Agency.

The severance/annual leave deficit represents the College's liability for accumulated severance entitlement and the annual leave benefit support staff and faculty have accrued to the end of 31 March 2003. Of this total, $10.9 million relates to severance accrual for College employees. The College budgets annually for the anticipated number of retirements. The remaining $3.9 million severance/annual leave deficit represents the liability associated with unused support and faculty staff annual leave. Most of this liability is used in the next fiscal year and is budgeted as part of the salary expense of the position.

Update on Prior Years' Report Items

Capital Assets

2000 Recommendation

The College should identify, record and monitor its capital assets.

Action Taken

Officials of the College indicated that the valuation and documentation of capital assets was completed in early 2002. Revised financial statements were issued in August 2002. Sessions were completed in October 2002 with campus level staff responsible for the documentation and tagging of assets.

Work on the database containing items related to disposed/scrapped/lost/stolen assets has been completed. The College has implemented detailed procedures for the completion of acquisition and disposal forms, and the usage of appropriate tags. The College has also implemented scanning processes that include downloads to scanners for assets in the database with the ability to generate exception reports and perform database updates. In addition, each campus maintains files of all major disposals and the inventory scans.

Update on Prior Years' Report Items

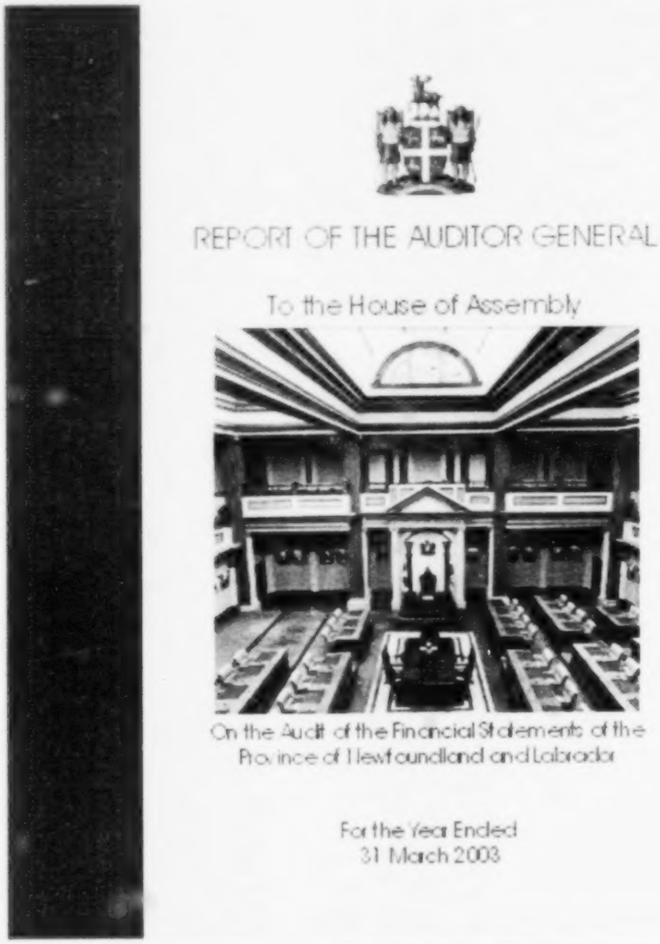
Reports under Section 15 of the *Auditor General Act*

Marine and Mountain Zone Corporation

Section 15 of the *Auditor General Act* requires that we report to the Lieutenant-Governor in Council any improper retention or misappropriation of public money or other activity that comes to our attention during our audits. This section also requires that we provide a general description in the Auditor General's annual report of any incidents referred to the Lieutenant-Governor in Council.

On 9 June 2003 we reported to the Lieutenant-Governor in Council that our review of expenditures of the Marine and Mountain Zone Corporation identified unauthorized payments which were made directly to or on behalf of an employee of the Corporation. For additional information, see item 2.26.

REPORTS > 2003 Report on the Audit of the Financial Statements of the Province



REPORT OF THE AUDITOR GENERAL

To the House of Assembly

On the Audit of the Financial Statements of the Province of Newfoundland and Labrador

For the Year Ended
31 March 2003

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Mission Statement

The Office of the Auditor General serves the House of Assembly by providing independent examinations of Government and its entities.

As legislative auditors, we audit financial statements and other accountability documents, evaluate management practices and control systems, and determine compliance with legislative and other authorities.

Our purpose is to promote accountability and encourage positive change in the stewardship, management and use of public resources.

Reflections of the Auditor General

The following comments are made further to my audit of the Public Accounts of the Province for the year ended 31 March 2003. The Report provides additional information on the financial condition of Government measured by using indicators issued by the Canadian Institute of Chartered Accountants. The Report also offers comments on Government's compliance with generally accepted accounting principles and adherence to principles of sound financial accountability.

Financial Condition of Government

The annual surplus or deficit shows the extent to which a government spends less or more than it raises in revenues in one fiscal year - it shows if a government is living within its means. The accumulated deficit or surplus is the sum of all annual deficits and surpluses. In the Public Accounts, the accumulated deficit is referred to as the net debt.

For the year ended 31 March 2002, I reported that *"... spending within its means and addressing the debt and unfunded pension liability should be a priority for Government."* I now report that, for the year ended 31 March 2003, Government did not spend within its means and the debt and unfunded pension liability increased during the year.

- Government did not spend within its means - the deficit for the year was $690.8 million. With the exception of 1998, Government has had an annual deficit every year since 1994, the first year consolidated summary financial statements were prepared. These deficits will eventually have to be either paid or refinanced.

- The debt and unfunded pension liability increased by $341 million during the year. At 31 March 2003, borrowings (net of sinking funds) and the unfunded pension liability totalled $10.2 billion, an increase of $341 million or 3.5% from 2002 and an increase of $2.2 billion or 28% over the $8.0 billion total in 1994. On a per capita basis at 31 March 2003, this debt amounts to approximately $19,600 for each Newfoundlander and Labradorian.

  Along with the $10.2 billion in borrowings and unfunded pension liability comes interest costs. Interest costs in 2003 amounted to $979 million and represented 24% of total revenue in that year - the highest interest costs as a percentage of total revenue of any Province in Canada. This "interest bite" means fewer resources to allocate to programs and services.

Although the Province's gross domestic product (GDP) has been increasing, our net debt has also been increasing. In 2003, the net debt as a percentage of GDP was 56% - the highest net debt as a percentage of GDP of any Province in Canada. The Province also has the highest per capita net debt of any Province in Canada. People ask how much debt is sustainable? While it is difficult to pinpoint with scientific accuracy the total amount of debt that Government could afford - the debt burden is at a point where, I believe Government must carefully examine whether the economy can sustain any further increases in debt and the impact on programs and services that more debt servicing costs will bring.

Unfunded Pension Liability

The unfunded pension liability continues to be a significant issue for Government. At 31 March 2003, borrowings (net of sinking funds) and the unfunded pension liability totalled $10.2 billion. Of this amount $3.56 billion or 35% relates to the unfunded pension liability.

The unfunded pension liability increased by $164 million during the year, a 4.8% increase from the $3.39 billion balance at 31 March 2002. Since 1994, the unfunded pension liability has increased by $1.04 billion or 41%.

Government started to make special payments into the fund in 1998 with a view to reducing the unfunded pension liability and since that time has paid in some $840 million. However, these payments are not large enough to reduce the unfunded pension liability - in fact the unfunded liability continues to grow. To put this into perspective, for the year ended 31 March 2003 Government made special payments of $148.5 million to the pension fund as part of its plan to reduce the unfunded pension liability; however, even with this significant special payment the unfunded pension liability increased by $164 million. Interest costs alone on the unfunded pension liability during the year amounted to $270.2 million (i.e. $121.7 million more than the special payments made by Government in an attempt to address the unfunded pension liability).

Addressing the unfunded pension liability should be a priority for Government.

Budget

A fundamental principle of financial accountability requires that a Government prepare a budget for approval by the House of Assembly and then report back to the House of Assembly on actual results. To facilitate an effective comparison between Government's budget and its actual results requires that budget documents and financial reporting both be prepared using the same basis of accounting. Using the same accounting principles for budget preparation and financial reporting ensures that a user of the information will not have to be concerned that significant adjustments are required in order to compare planned results with actual results.

Government prepares Consolidated Summary Financial Statements which are in compliance with generally accepted accounting principles for governments and which are regarded as its primary financial report; however, Government has not prepared its budget on the same basis. For the year ended 31 March 2003, Government has continued to use the budget for the Consolidated Revenue Fund, not the Consolidated Summary Financial Statements, as its fiscal plan. As a result, the budgeting practices of Government have been significantly inconsistent with its financial reporting practices.

Reflections of the Auditor General

The inconsistent reporting has resulted in much confusion and debate in the past as to what was Government's "real" deficit or surplus in a particular year. The inconsistencies have occurred because of two things - first, the budget was prepared on a cash basis and therefore did not include significant accounting adjustments reflected in the Consolidated Summary Financial Statements and second, the budget did not include all Government entities included in the Consolidated Summary Financial Statements.

To put the matter in perspective, the budget of the Consolidated Revenue Fund for the year ended 31 March 2003, as approved by the Members of the House of Assembly, projected a deficit of $93.3 million while the actual deficit as reported in the Consolidated Summary Financial Statements (the most complete record of Government's financial condition) was $690.8 million. Even if a reader attempted to understand what transactions caused the increase in the deficit, because there was no fiscal plan prepared on that basis, it is not be possible to determine how close Government came to meeting its fiscal plan.

For the year ended 31 March 2002, I reported that *"... Government should prepare a summary budget on the same basis of accounting used to prepare the Consolidated Summary Financial Statements."* Although Government did not prepare such a budget for the year ended 31 March 2003, I am pleased to note that for fiscal year 2003-04, Government has prepared such a budget. This budget can now be used to communicate the planned results of Government financial activities to the House of Assembly and the public.

JOHN L. NOSEWORTHY, C.A.
Auditor General

Reflections of the Auditor General

2.1 Introduction

The Public Accounts represent the annual financial statements of the Government of the Province of Newfoundland and Labrador. These financial statements provide an important link in an essential chain of public accountability. They are the principal means by which Government reports to the House of Assembly and to all Newfoundlanders and Labradorians on its stewardship of public funds. The Public Accounts are published in four volumes.

Volume 1, Consolidated Summary Financial Statements, comprised of the Consolidated Revenue Fund (which accounts for the financial activities of the 20 Government departments and the Legislature) and all Crown agencies with the exception of Memorial University of Newfoundland and the Workplace Health, Safety and Compensation Commission. Details of the entities included in these financial statements are provided in Figure 1.

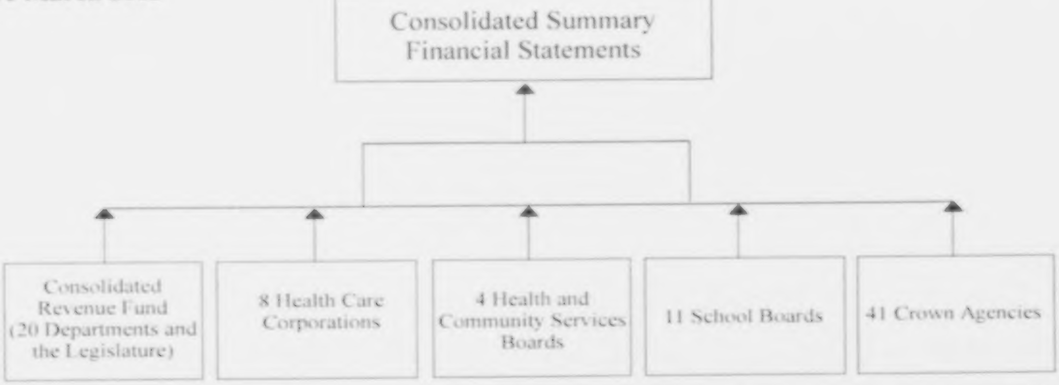
Volume 2, Consolidated Revenue Fund Financial Statements, comprised of the 20 Government departments and the Legislature on an accrual basis of accounting.

Volume 3, Consolidated Revenue Fund, Supplementary Statements and Schedules, comprised of the 20 Government departments and the Legislature on a cash basis of accounting.

Volume 4, Financial Statements of Crown Corporations, Boards and Authorities, comprised of available financial statements for Crown Corporations, Boards and Authorities.

Figure 1

Entities Included in the Consolidated Summary Financial Statements
31 March 2003


Consolidated Summary Financial Statements
Consolidated Revenue Fund (20 Departments and the Legislature)
8 Health Care Corporations
4 Health and Community Services Boards
11 School Boards
41 Crown Agencies

The Consolidated Summary Financial Statements of the Province (i.e. Volume I) provide the most complete information about the operating results and financial position of the Province. These statements consolidate the financial position and results of operation of the Consolidated Revenue Fund, which accounts for the financial activities of the 20 Government departments and the Legislature, with those of other Government entities. As outlined in Figure 1, these statements include the operations of all Government departments, of which there were 20 in 2002-03, the Legislature, 8 Health Care Corporations, 4 Health and Community Services Boards, 11 School Boards and 41 Crown agencies. These 41 Crown agencies do not include Memorial University of Newfoundland and the Workplace Health, Safety and Compensation Commission.

2.2 Legislative Requirements Relating to the Financial Statements of the Province

The Public Accounts are prepared in accordance with section 59 of the *Financial Administration Act*. The Act requires that the Public Accounts show:

- the state of the public debt;
- the revenue and expenditure;
- all compromises, remissions, refunds and amounts written off; and
- those other accounts and statements that may under good accounting practice be required to show the financial position of the Province at the end of the fiscal year.

Treasury Board prescribes the manner and form in which the Public Accounts of the Province are prepared, as provided for under the *Act*.

Section 11 of the *Auditor General Act* requires that the Auditor General express an opinion as to whether the financial statements included in the Public Accounts present fairly the financial position, results of operations and changes in the financial position of the Province in accordance with the disclosed accounting policies of the Provincial Government and on a basis consistent with that of the preceding year, together with reservations the Auditor General may have.

Since the recommendations of the Canadian Institute of Chartered Accountants relating to financial reporting by governments have now become generally accepted within Canada, section 59 of the *Financial Administration Act* requires compliance with these recommendations to properly present the financial position of the Province at the end of the fiscal year.

2.3 Auditor's Report on the Financial Statements of the Province

The Auditor's Report on the Consolidated Summary Financial Statements of the Province for the year ended 31 March 2003 reads as follows:

To the House of Assembly
Province of Newfoundland and Labrador

I have audited the consolidated statement of financial position of the Province of Newfoundland and Labrador as at 31 March 2003 and the consolidated statements of net debt, revenue and expenditure, and changes in financial position for the year then ended. These financial statements are the responsibility of Government. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by Government, as well as evaluating the overall financial statement presentation.

In my opinion, these consolidated summary financial statements present fairly, in all material respects, the financial position of the Province of Newfoundland and Labrador as at 31 March 2003 and the results of its operations and the changes in its financial position for the year then ended in accordance with the accounting policies disclosed in Note 1 to the consolidated summary financial statements applied on a basis consistent with that of the preceding year.

JOHN L. NOSEWORTHY, C.A.
Auditor General

St. John's, Newfoundland and Labrador
12 September 2003

3.1 Introduction

Government has made significant progress in the preparation of financial statements that provide information about the operating results and financial position of the Province. In particular, in 2002 and 2003 the timeliness of the completion of the financial statements is a significant improvement over prior years. I commend the Office of the Comptroller General for being proactive in initiating improvements in the quality and timeliness of the Public Accounts.

While Government has made significant progress, there are still issues that have to be addressed. One of the most significant issues for Government to address relating to compliance with generally accepted accounting principles and sound financial accountability relates to its annual budget. I have included information in part 3.2 of this Chapter and in Chapter 5 which provides details as to why using the Consolidated Revenue Fund budget does not show a complete financial picture of Government.

The Public Sector Accounting Board (PSAB) provides the generally accepted accounting principles for the public sector in Canada. PSAB pronouncements represent the consensus of senior government officials, legislative auditors and other experts in public sector accounting across Canada. They represent minimum standards for government and are the benchmark for acceptable financial reporting.

The following are areas which require improvements in order to be in full compliance with generally accepted accounting principles (GAAP) for government.

3.2 Comparative Budget Figures

A fundamental principle of financial accountability requires that a Government prepare a budget for approval by the House of Assembly and then report back to the House of Assembly on actual results. To facilitate an effective comparison between Government's budget and its actual results requires that budget documents and financial reporting both be prepared using the same basis of accounting. Using the same accounting principles for budget preparation and financial reporting ensures that a user of the information will not have to be concerned that significant adjustments are required in order to compare planned results with actual results.

Government prepares Consolidated Summary Financial Statements which are in compliance with generally accepted accounting principles for governments and which are regarded as its primary financial report; however, Government does not prepare its budget on the same basis. For the year ended 31 March 2003, Government has continued to use the budget for the Consolidated Revenue Fund, not a budget for the

Consolidated Summary Financial Statements, as its fiscal plan. As a result, the budgeting practices of Government are significantly inconsistent with its financial reporting practices.

The inconsistent reporting has resulted in much confusion and debate in the past as to what was Government's "real" deficit or surplus in a particular year. The inconsistencies occur because of two things - first, the budget is prepared on a cash basis and therefore does not include significant accounting adjustments which are reflected in the Consolidated Summary Financial Statements and second, the budget does not include all Government entities which are included in the Consolidated Summary Financial Statements.

To put the matter in perspective, the budget of the Consolidated Revenue Fund for the year ended 31 March 2003, as approved by the Members of the House of Assembly, projected a deficit of $93.3 million while the actual deficit as reported on the same basis as the budget, was $36.2 million. However, as explained in Chapter 5 of this Report, Government can "adjust" its financial results on this basis of accounting and therefore this is not a financial result that should be used to determine how close Government came to meeting its fiscal plan. The deficit reported in the Consolidated Summary Financial Statements (the most complete record of Government's financial condition) was $690.8 million. Even if a reader attempted to understand what transactions caused the increase in the deficit from $36.2 million to $690.8 million, as a result of not preparing a summary budget, it is not possible to determine how close Government came to meeting its fiscal plan.

Although Government did not prepare such a budget for the year ended 31 March 2003, I am pleased to note that for fiscal year 2003-04, Government has prepared such a budget. This budget can now be used to communicate the planned results of Government financial activities to the House of Assembly and the public.

3.3 Government Reporting Entity

The Province's Consolidated Summary Financial Statements are required to include all organizations that are accountable for the administration of their financial affairs and resources either to a minister of government or directly to the House of Assembly, and that are owned or controlled by government. A detailed listing of organizations and enterprises included is shown in a schedule to the Consolidated Summary Financial Statements of the Province.

Comments on Government's Financial Reporting

The Consolidated Summary Financial Statements include organizations and enterprises that meet the criteria for inclusion, with the exception of the Workplace Health, Safety and Compensation Commission and Memorial University of Newfoundland, both of which meet the criteria.

Our review of the *Workplace Health, Safety and Compensation Act* indicates the Commission is accountable to and controlled by Government and, therefore, should be included as part of the reporting entity. A note to the Schedule of Trust Accounts in the Consolidated Summary Financial Statements for the year ended 31 March 2003 indicated that Government considered the Commission to be a form of trust. This note disclosed information on the Commission's surplus ($17.4 million) and unfunded liability ($178.9 million) for the year ended 31 December 2002.

Our review of the *Memorial University Act* indicates that the University is accountable to and controlled by Government and, therefore, should be included as part of the reporting entity. The financial statements of the University for the year ended 31 March 2003 show government operating grants at $144.8 million (2002 - $133.5 million).

Recommendation

The Workplace Health, Safety and Compensation Commission and the Memorial University of Newfoundland should be included in the Government reporting entity.

3.4 Periodic Financial Statements

Periodic financial statements, while not specifically required by CICA standards, are considered to be an important component of any financial accountability framework. These statements are important to effectively monitor and control government operations.

Commencing in the quarter ended September 2002, Government started to prepare quarterly financial statements to show its results of operations and its financial position on an on-going basis. Officials of the Office of the Comptroller General indicated that these financial statements are only distributed to the Minister of Finance, the Deputy Minister of Finance and the Secretary to Treasury Board.

While I commend the Office of the Comptroller General for preparing such financial statements; in my opinion, they should be more widely distributed. Ideally, these financial statements should be one part of accountability information provided on an on-going basis to all Members of the House of Assembly and senior government officials.

Recommendation

Periodic financial statements should be provided to Members of the House of Assembly and senior government officials as part of Government's accountability framework.

3.5 Liability Relating to Post-employment Benefits Other than Pensions

A liability which is not currently reflected in the Province's Public Accounts is the liability relating to post-employment benefits other than pensions. Government does recognize a liability for future pension related payments to employees upon leaving the public service; however, it does not recognize a liability for other post-employment benefits, such as future health care benefits for existing and retired employees. Currently, any costs related to these benefits are only recognized as payments are made rather than being recognized as employees earn the right to these benefits over their worked service.

Recognition of pension liabilities has been a generally accepted accounting practice for governments in Canada for several years. Recognition of other post-employment benefits will also soon become generally accepted by these governments.

Government in this Province has commenced a process to determine this liability. An actuary has been engaged to determine the amount, which is expected to be quite significant. This liability will add to the already considerable debt load of the Province.

Recommendation

Government should continue with its efforts to determine and reflect a liability relating to post-employment benefits other than pensions.

Key Indicators of the State of Government's Finances

4.1 Introduction

An important role of our Office is to provide the Members of the House of Assembly with information on the state of Government's finances. This information is necessary in order to have an informed debate about the issues that Government has to address. Issues include the ability of Government to fund programs and services, where the revenues will come from and the impact of deficits and debt.

This report provides financial and economic information to help readers understand Government's finances. The information in this report is taken from Government's Consolidated Summary Financial Statements contained in Volume I of the Public Accounts.

4.2 Key Indicators of the State of a Government's Finances

The Canadian Institute of Chartered Accountants is the professional body that recommends standards for financial reporting, accounting and auditing in the public sector. It also initiates research studies on public sector accounting and auditing matters.

In 1997, the Canadian Institute of Chartered Accountants issued a Research Report entitled *Indicators of Government Financial Condition.* That report identified financial indicators which it felt best describes the financial condition of a government. These indicators were categorized in terms of three elements of financial condition - sustainability, flexibility, and vulnerability.

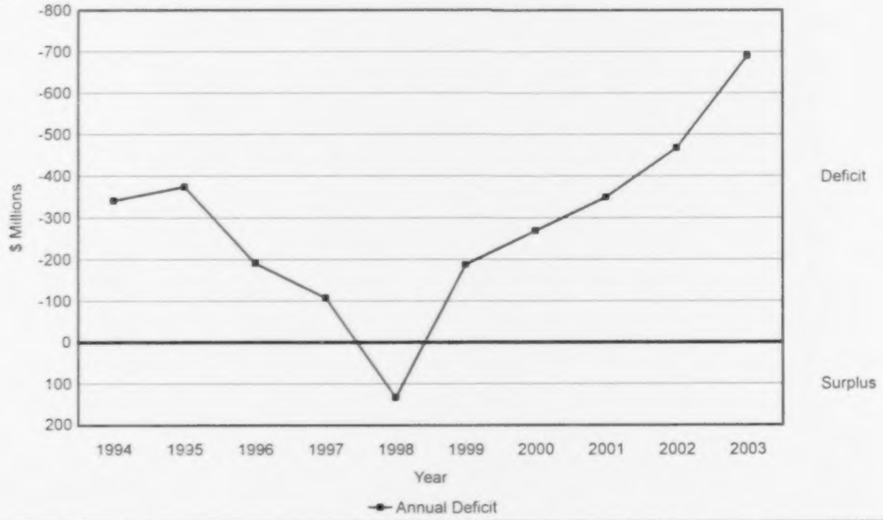
In this report, we discuss these indicators in the Newfoundland and Labrador context. Each indicator can and should be analyzed in detail, combined with other information, and monitored over time. Government should consider including these indicators in an annual performance report. Performance reports show planned and actual results. Publishing an annual performance report would also provide Government with the opportunity to set out its thinking on the underlying issues, the status of its key performance indicators, and its plans for the future.

4.3 Sustainability

Sustainability is the degree to which a government can maintain existing programs and meet existing creditor requirements without increasing the debt burden on the economy. A government's annual surplus or deficit, its accumulated deficit (or net debt) and a province's gross domestic product (GDP) are important indicators of the state of a government's finances. Each of these indicators provides useful insight into the sustainability of a government's revenue raising and spending practices. The annual surplus or deficit shows the extent to which a government spends less or more than it raises in revenues in one fiscal year. The accumulated deficit (or net debt) is the sum of all annual deficits and surpluses. For the year ended 31 March 2003, the annual deficit reflected in the Province's Consolidated Summary Financial Statements was $690.8 million with an accumulated deficit (or net debt) of $9.6 billion. Figure 1 provides details as to the annual deficit since 1994.

Figure 1

Consolidated Summary Financial Statements
Annual Deficit (Surplus)
Years Ended 31 March
(S Millions)



As this figure shows, Government's annual deficit has been growing each year since 1998. In 1998, there was a reported surplus of $133 million which resulted from a one time payment of $348 million related to the Labrador ferry service transfer.

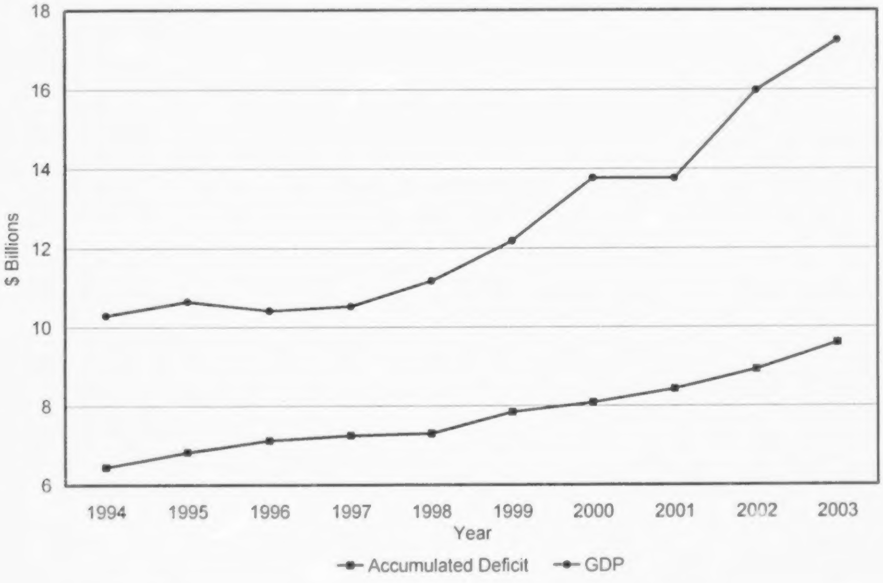
The research study proposes that users of a province's financial statements look at the long-term trends such as:

- deficit to GDP; and
- debt to GDP.

The Province's GDP is a measure of the total value of all the goods and services produced in Newfoundland and Labrador in one year. The GDP indicates the size of the provincial economy. Government must manage its revenue raising and spending practices in the context of the economy of the Province. Figure 2 provides details as to the accumulated deficit (or net debt) in relation to the GDP since 1994.

Figure 2

Consolidated Summary Financial Statements
Accumulated Deficit (Net Debt) in Relation to GDP
Years Ended 31 March
($ Billions)



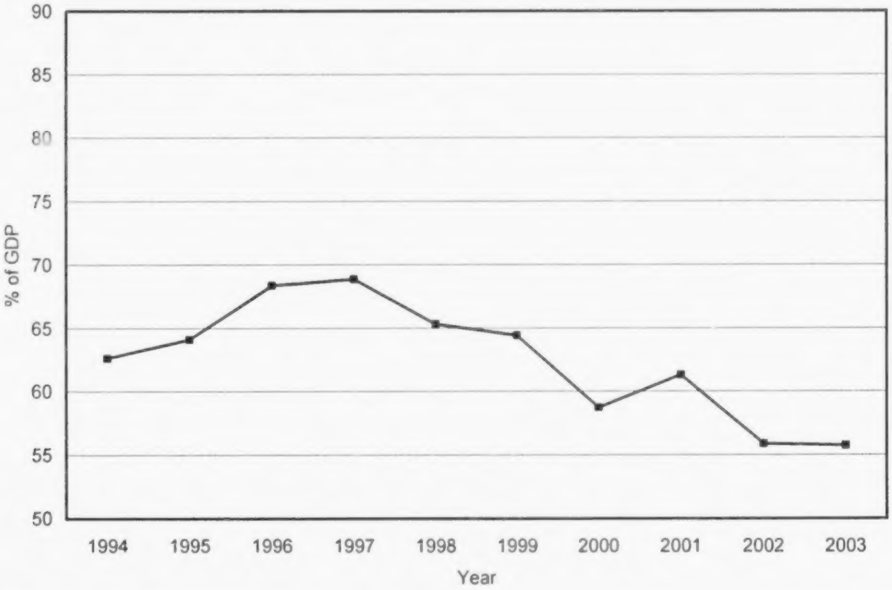
The GDP of Newfoundland and Labrador has increased substantially since 1994. In 2003, the GDP of Newfoundland and Labrador was $17.2 billion, up 67% from the 1994 GDP which was $10.3 billion.

Key Indicators of the State of Government's Finances

The financial demands placed on the economy by Government's spending and revenue raising practices can be assessed for sustainability by comparing Government's accumulated deficit (or net debt) to the Province's GDP. Figure 3 provides a measure of how much debt Government can afford to carry. The thinking behind this measure is that the larger the GDP the more debt Government can afford to carry.

Figure 3

Consolidated Summary Financial Statements
Accumulated Deficit (Net Debt) as a Percentage of GDP
Years Ended 31 March



While the accumulated deficit (or net debt) as a percentage of GDP decreased from a high of 68.9% in 1997 to a low 55.7% in 2003, it was still the highest of any Province in Canada.

Government will need to carefully manage its future revenues and expenditures.

4.4 Flexibility

Flexibility is the degree to which a government can increase its financial resources to respond to rising commitments by either expanding its revenues or increasing its debt. The research study proposes that users of a province's financial statements look at the long-term trends of such indicators as:

- interest costs as a percentage of total revenue; and
- own source revenues to GDP.

Together with a government's accumulated deficit (or net debt) and a province's GDP, these indicators provide insight into a government's flexibility in responding to rising commitments. For example, when a government has a large accumulated deficit (or net debt) and high interest costs, it has fewer resources to allocate to programs and services.

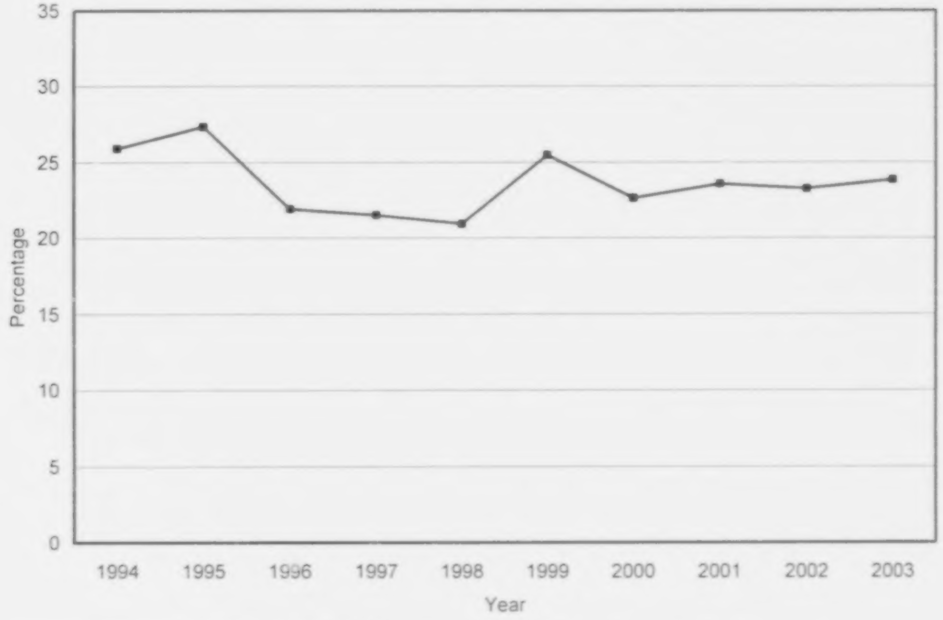
Government incurs interest costs on its borrowings and its unfunded liabilities. At 31 March 2003, Government's long-term debt net of sinking funds was $6.6 billion and its unfunded pension liabilities were $3.6 billion. The money to pay interest costs is raised by levying taxes or by charging directly for services. In 2003, Government's interest costs were $979 million.

Interest costs as a percentage of total revenue, sometimes called the "interest bite", is an important indicator of the state of a government's finances. This indicator shows the extent to which a government must use revenue to pay interest costs rather than to pay for programs and services.

As indicated in Figure 4, during the ten year period from 1994 to 2003, Government's interest costs as a percentage of total revenue has fluctuated from a high of 27.4% to a low of 20.9%. For the year ended 31 March 2003, the interest costs as a percentage of total revenue was at 23.9%.

Figure 4

Consolidated Summary Financial Statements
Total Interest Costs as a Percentage of Total Revenue
Years Ended 31 March



Reductions in the interest bite allows Government to use more of its revenues to pay for programs and services, and use less of its revenues to pay for the interest costs of debt. Increases in the interest bite restricts the amount of revenues available for programs and services as more revenues are used to pay for interest costs.

The Government of Newfoundland and Labrador raises revenue from two general sources. The first revenue source is from within the Province. This source is called "own source revenue". The second source of revenue is transfers from the Federal Government.

Figure 5 provides information on these revenues since 1994.

Key Indicators of the State of Government's Finances

Figure 5

Consolidated Summary Financial Statements
Revenue by Source
Years Ended 31 March
($ Billions)

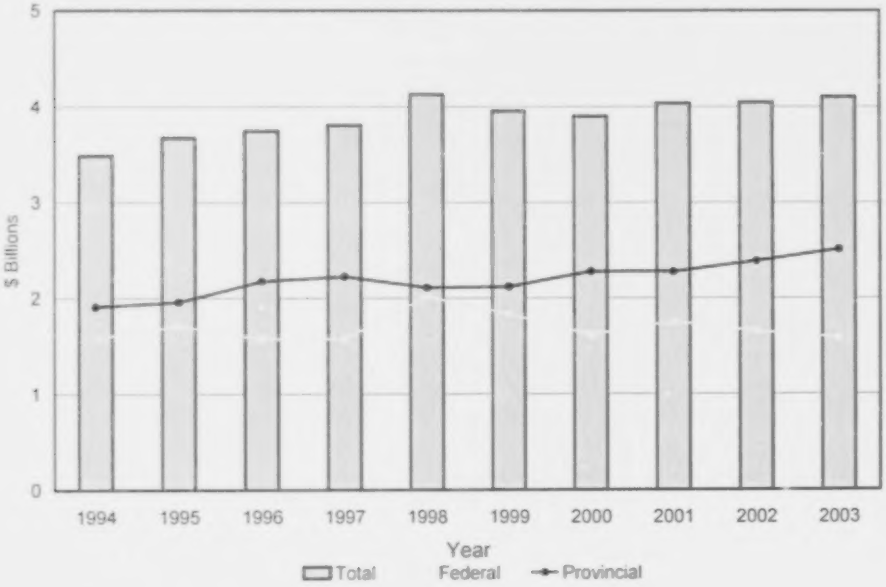


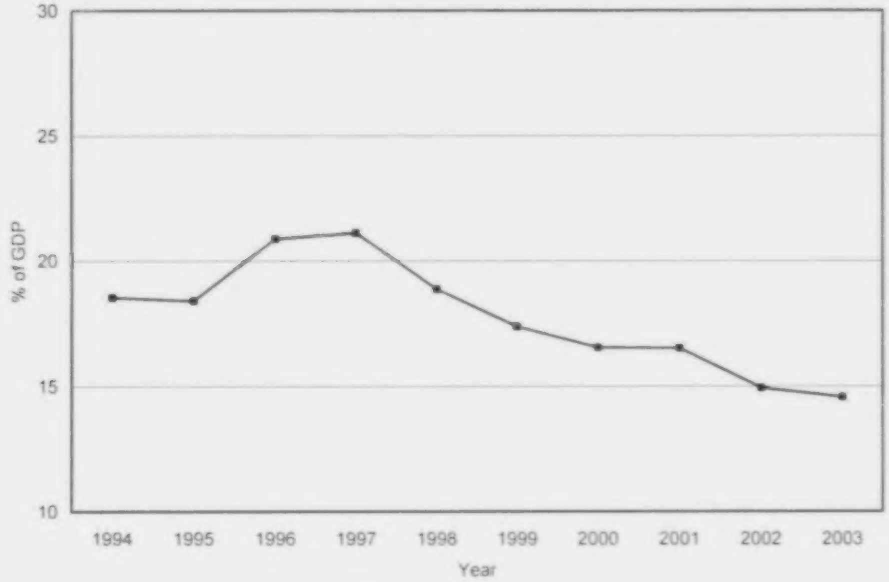
Figure 5 shows that federal revenues often vary significantly from provincial or own source revenue. These variances range from federal revenue being less than own source revenue by $923.1 million in 2003 to $90.2 million in 1998. The increase in federal revenue in 1998 resulted from a one time payment of $348 million related to the Labrador ferry service transfer.

Another important indicator of the state of a government's finances is shown by comparing the change in a government's own source revenue to the size of the economy as indicated by the GDP.

Figure 6 provides information on this indicator since 1994.

Figure 6

Consolidated Summary Financial Statements
Own Source Revenue as a Percentage of GDP
Years Ended 31 March



The revenue raised by the Government of Newfoundland and Labrador from sources within the Province, as a percentage of GDP, has declined from 21.1% in 1997 to 14.6% in 2003.

4.5 Vulnerability

Vulnerability is the degree to which a government becomes dependent on, and therefore vulnerable to, sources of funding outside its control or influence. This indicator measures the extent to which a government can manage its financial affairs without having to rely on others.

The research study proposed that users of a province's financial statements look at the long term trends of such indicators as:

- Federal Government revenues compared to own source revenues; and
- foreign currency debt to total government debt.

Key Indicators of the State of Government's Finances

A significant portion of Government's revenue in this Province consists of transfers from the Federal Government. These revenue transfers are intended to help pay for the costs of such programs as health, education, and social services.

The Federal Government calculates the amount of equalization transfers by comparing the ability of a province to raise revenues with a standard set by the Federal Government. As a result of this calculation, the annual amount of equalization transfers due to Newfoundland and Labrador is significantly affected by the performance of other provincial economies.

Figure 7 indicates the percentage of Federal revenues compared to the Province's total revenues. As the figure indicates, over the past ten years, Federal revenues ranged from a high of 49% in 1998 to a low of 39% in 2003. For 2003, Federal revenues accounted for 39% of the Province's total revenues which was a slight decrease from 41% in 2002.

Figure 7

Consolidated Summary Financial Statements
Federal Revenue as a Percentage of Total Revenues
Years Ended 31 March

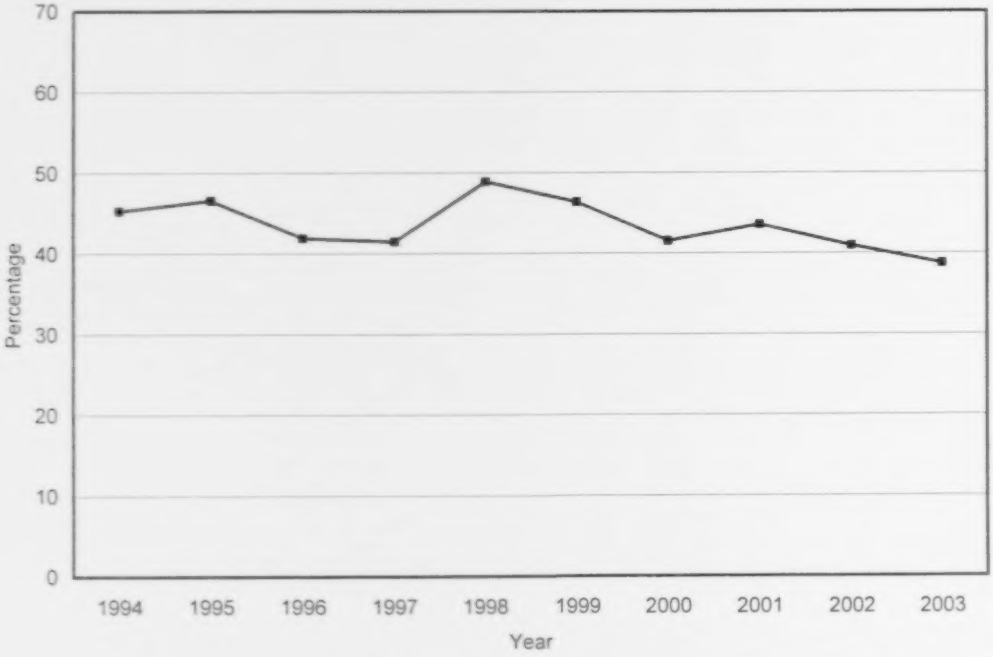
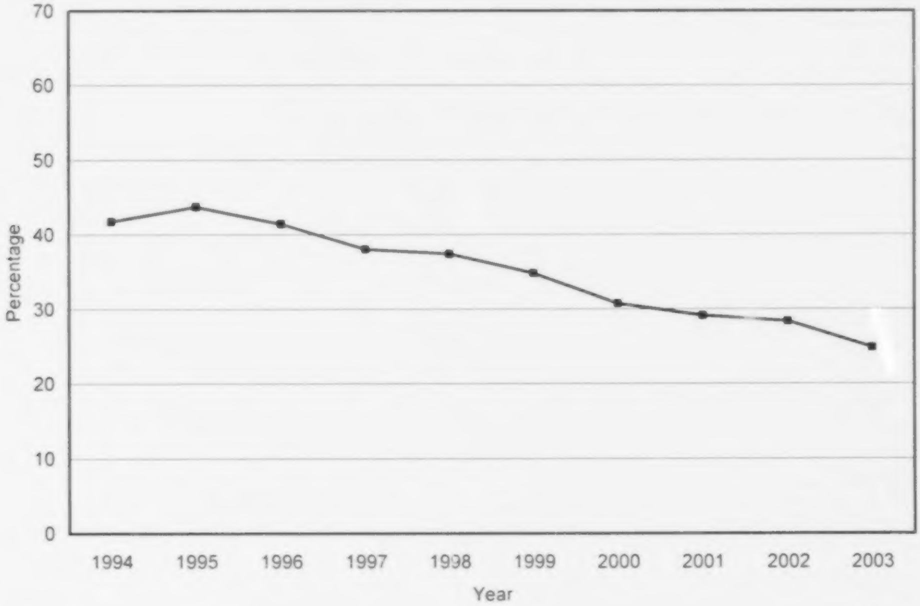


Figure 8 compares the Province's foreign currency debt to the Province's total debt, and indicates the degree of vulnerability which the Province has to currency swings. As the figure indicates, over the last ten years, foreign currency debt as a percentage of total debt has been steadily decreasing from a high of 43.7% in 1995 to 24.8% in 2003.

Figure 8

Consolidated Summary Financial Statements
Foreign Currency Debt as a Percentage of Total Debt
Years Ended 31 March



As at 31 March 2003 the Province had $1.85 billion in foreign debt and as a result is vulnerable to currency swings. For example, an increase/decrease of one cent in the foreign exchange rates at 31 March 2003 would result in an increase/decrease in foreign borrowings of $13.0 million.

Issues Resulting From Government's Focus on the Consolidated Revenue Fund

5.1 Introduction

Each year a budget document is debated and approved in the House of Assembly. This document outlines Government's budgeted revenues and expenditures and its surplus or deficit for the fiscal year on a cash basis. This budget represents financial planning information published by Government but focuses only on its finances as set out in one Government Fund called the Consolidated Revenue Fund (CRF).

Given the focus by Government on the CRF for purposes of presenting its financial plan, each year we review the manner in which Government calculates its cash surplus or cash deficit for the CRF. Specifically we are concerned about the way Government can "adjust" its actual cash surplus or cash deficit through Government decisions about which revenues or expenditures to include and when to include them. These concerns are not new and my Office has reported on this issue in each of the past 4 years.

For the year ended 31 March 2002, I reported that "*...Government should prepare a summary budget on the same basis of accounting used to prepare the Consolidated Summary Financial Statements*". Although Government did not prepare such a budget for the year ended 31 March 2003, I am pleased to note that for fiscal year 2003-04, Government has prepared such a budget. This budget can now be used to communicate the planned results of Government's financial activities to the House of Assembly and the public.

For the 2002-03 fiscal year, if Government had chosen not to defer revenues which it had budgeted, and had not incurred non-urgent expenditures in contravention of the *Financial Administration Act*, it would have reported a cash **surplus** of $11.5 million for the CRF rather than a cash **deficit** of $36.2 million. This chapter provides information on the ways Government can "adjust" its bottom line.

5.2 Revenue and Expenditure Adjustments

Figure 1 provides an analysis of the budgeted cash deficit of $93.3 million and the actual cash deficit of $36.2 million.

Figure 1

Consolidated Revenue Fund
Budget and Actual Cash Deficit
Year Ended 31 March 2003
($ Millions)

	Budget	Actual	Difference
Revenues:			
Provincial Taxes	$1,614.4	$1,827.2	$212.8
Federal Equalization Payments	1,158.0	1,131.9	(26.1)
Federal - Other	342.7	341.4	(1.3)
Non-Tax Revenue	406.7	306.3	(100.4)
Related Revenue			
Hydro Dividends	44.2	47.3	3.1
Sinking Fund	115.0	80.7	(34.3)
Guarantee Fees	14.1	14.0	(0.1)
Recoveries - Loans, Advances and Investments	14.0	1.4	(12.6)
Other	249.6	239.2	(10.4)
Total Revenues	3,958.7	3,989.4	30.7
Total Expenditures	4,052.0	4,025.6	26.4
Cash Deficit	$ 93.3	$ 36.2	$ 57.1

Source: Consolidated Revenue Fund Financial Statements and Consolidated Revenue Fund Supplementary Statements and Schedules

Figure 2 outlines the amount of combined revenue budgeted and received from provincial taxes and federal payments since 1997. As shown in the figure, the budget has been consistently lower than actual revenues received from provincial taxes and federal equalization and other payments.

Figure 2

Consolidated Revenue Fund
Budget and Actual Revenues
Provincial Taxes and Federal Payments
($ Millions)

Year	Budgeted	Received	Received over Budget
1997	2,811	2,908	97
1998	2,775	3,180	405
1999	2,812	3,006	194
2000	2,754	2,918	164
2001	2,850	3,088	238
2002	3,042	3,078	36
2003	3,115	3,300	185

Source: Consolidated Revenue Fund Financial Statements and Consolidated Revenue Fund Supplementary Statements and Schedules

Although the actual revenues received from provincial taxes and federal equalization and other payments were usually significantly more than budgeted in these years, the actual cash deficit only varied from the budgeted deficit in the range of $8.6 million to $57.1 million for these same years.

This is due in large part to Government's choosing to bring in less revenue than budgeted from other sources. For example, over the years, Government has brought in less revenue from sources such as dividend income and guarantee fees from Newfoundland and Labrador Hydro, sinking fund earnings, and recoveries on loans, advances and investments. In addition, Government has also used special warrants to make payments not approved in the initial budget which has the effect of increasing Government expenditures and increasing the deficit or decreasing the surplus. These revenue and expenditure "adjustments" are as follows:

1. Dividends - Newfoundland and Labrador Hydro

Government's annual budget includes revenue from dividends of Newfoundland and Labrador Hydro. However, the actual amount received and reported as revenue in any year is determined at the discretion of Government and therefore can be used to "adjust" the cash surplus or deficit of the Consolidated Revenue Fund. As shown in Figure 3, the dividends budgeted each year and the amount Government received and reported since 1997 are as follows:

Figure 3

Consolidated Revenue Fund
Budget and Actual Dividends from Newfoundland and Labrador Hydro
($ Millions)

Year	Budgeted	Received	Not Received
1997	32	17	15
1998	47	17	30
1999	69	17	52
2000	146	70	76
2001	121	53	68
2002	112	105	7
2003	44	47	(3)

Source: Consolidated Revenue Fund Supplementary Statements and Schedules

Until 2003, Government decided each year since 1997 to take less dividend income from Newfoundland and Labrador Hydro than budgeted, thus providing Government with a significant amount of discretion as to what it reports as its cash surplus or deficit in the Consolidated Revenue Fund.

2. Sinking Funds

In December 1999, the Legislature amended the *Financial Administration Act* to direct that where money in a sinking fund is not required to redeem an issue of securities, the money may be paid into the Consolidated Revenue Fund as the Lieutenant-Governor in Council may direct. As a result, the amount of money paid to the Consolidated Revenue Fund and recorded as revenue in any year is, depending on the availability of such monies, totally at the discretion of Cabinet.

Figure 4 outlines the amount of sinking fund earnings that were budgeted and actually transferred to the Consolidated Revenue Fund since the amendment to the *Financial Administration Act*.

Figure 4

Consolidated Revenue Fund
Budget and Actual Sinking Fund Earnings
($ Millions)

Year	Budgeted	Received	Not Received
2000	36	10	26
2001	116	27	89
2002	185	156	29
2003	115	81	34

Source: Consolidated Revenue Fund Supplementary Statements and Schedules

As the figure indicates, in each of the last four years, Government has decided not to take all of the budgeted sinking fund monies into income. This demonstrates that Government had the flexibility to "adjust" the cash surplus or deficit of the Consolidated Revenue Fund and produce a result it desired.

3. Guarantee Fees

When Government provides a loan guarantee to an entity, it charges an annual fee equal to 1% of the guarantee. However, in the case of Newfoundland and Labrador Hydro, the amount actually received and reported as revenue is determined at the discretion of Government and again provides the flexibility to "adjust" the cash surplus or deficit of the Consolidated Revenue Fund and produce a result it desires. Figure 5 shows the guarantee fees budgeted for Newfoundland and Labrador Hydro each year since 1997 and the amount Government actually received and reported.

Figure 5

Consolidated Revenue Fund
Budget and Actual Guarantee Fees from Newfoundland and Labrador Hydro
($ Millions)

Year	Budgeted	Received	Not Received
1997	18.7	10.8	7.9
1998	18.9	11.2	7.7
1999	10.8	11.3	(0.5)
2000	18.9	10.9	8.0
2001	18.9	10.8	8.1
2002	19.3	20.6	(1.3)
2003	14.0	13.9	0.1

Source: Consolidated Revenue Fund Supplementary Statements and Schedules

4. Recoveries - Loans, Advances and Investments

This activity provides for the principal recovery from various loans, advances and investments. As shown in Figure 6, during the last four fiscal years, the amount of recoveries that were budgeted compared to the amount actually received by the Consolidated Revenue Fund differed significantly as follows:

Figure 6

Consolidated Revenue Fund
Budget and Actual Recoveries of Loans, Advances and Investments
($ Millions)

Year	Budgeted	Received	Not Received
2000	13.6	0.4	13.2
2001	13.2	1.6	11.6
2002	17.7	4.8	12.9
2003	14.0	1.4	12.6

Source: Consolidated Revenue Fund Supplementary Statements and Schedules

In the last three fiscal years, Government budgeted recoveries which included $10 million from Newfoundland and Labrador Housing Corporation and $3.0 million from Gull Island Power Co.; however, Government deferred the receipt of these monies from the Corporations. As this indicates, Government decided to take less recoveries on loans, advances and investments into income than budgeted. This demonstrates that Government had the flexibility to "adjust" the cash surplus or deficit of the Consolidated Revenue Fund and produce a result it desired.

5. Special Warrants

Special warrants are used to make payments not approved in the original budget, thereby increasing Government expenditures and either increasing its deficit or decreasing its surplus. Since 1997 my Office has expressed concern that many special warrants issued each year did not meet the requirements of the *Financial Administration Act* as, in our opinion, they were not urgently required. The use of special warrants provides Government with the flexibility to "adjust" its cash surplus or deficit and produce a result it desires. Figure 7 shows special warrants issued in contravention of the *Financial Administration Act* since 1997, as a result of not being urgently required.

Figure 7

Special Warrants in Contravention of the Financial Administration Act, i.e. no Urgent Requirement ($ Millions)

Year	Amount
1997	36.9
1998	30.9
1999	95.0
2000	70.8
2001	33.0
2002	33.1
2003	4.0

5.3 Impact of Adjustments

In order to assess the impact that the adjustments discussed in Part 5.2 would have on the cash surplus or deficit of the Consolidated Revenue Fund, I have summarized, in Figure 8, the cash surplus both before and after the adjustments for dividends and guarantee fees from Newfoundland and Labrador Hydro, sinking fund monies, recoveries on loans, advances and investments, and special warrants. Figure 8 also shows the cash surplus which was reported after the above adjustments and compares it to the cash budget of the Consolidated Revenue Fund.

Figure 8

Consolidated Revenue Fund
Reported Deficits
Year Ended 31 March
($ Millions)

Year	Cash Surplus Before Adjustments	Hydro Dividends Not Received	Sinking Funds Not Received	Hydro Guarantee Fees Not Received	Recoveries of Loans, Advances and Investments Not Received	Special Warrants With No Urgent Requirement	Cash Surplus (Deficit) Reported	Budget Cash Deficit
1997	41.2	15.0	-	7.9	-	36.9	(18.6)	(44.8)
1998	61.9	30.0	-	7.7	-	30.9	(6.7)	(20.3)
1999	150.3	52.0	-	(0.5)	-	95.0	3.8	(10.0)
2000	171.1	76.0	26.0	8.0	13.2	70.8	(22.9)	(33.3)
2001	183.6	68.0	89.0	8.1	11.6	33.0	(26.1)	(34.7)
2002	33.5	7.0	29.0	(1.3)	12.9	33.1	(47.2)	(30.5)
2003	11.5	(3.0)	34.0	0.1	12.6	4.0	(36.2)	(93.3)

As Figure 8 shows, the deferral of dividends and guarantee fees from Hydro, sinking fund monies and recoveries on loans, advances and investments, in addition to the use of special warrants have had a significant impact on the cash deficit reported for the Consolidated Revenue Fund over the last seven years.

For the 2002-03 fiscal year, if Government had received sinking fund monies and recoveries on loans, advances and investments it had budgeted, and had not issued non-urgent special warrants in contravention of the *Financial Administration Act*, it would have reported a cash surplus of $11.5 million in the Consolidated Revenue Fund rather than a cash deficit of $36.2 million.

5.4 Government's Budget

The budget or financial planning information published by Government for the year ended 31 March 2003 focused on an incomplete picture. This planning information was not complete because the budget was prepared on a cash basis of accounting and therefore, did not include many significant accounting adjustments or transactions required to provide the actual results of Government operations. Specifically excluded were a number of significant transactions including foreign exchange losses, bad debts, and increases in Government's unfunded pension liability.

In addition, the financial planning information published by Government focused on its finances as set out in one Government Fund called the Consolidated Revenue Fund. That picture is not complete because other Government activity takes place outside of that Fund. This activity takes place in organizations including those in the health care sector and the education sector, as well as Newfoundland and Labrador Hydro and other organizations which are owned or controlled by, and are accountable to, Government.

Neither the budgeted cash deficit of $93.3 million nor the reported cash deficit of $36.2 million includes all of the financial transactions and activities of Government. When all of these financial transactions and activities are included, Government's actual deficit for the year ended 31 March 2003 is $690.8 million.

Figure 9 compares the reported $36.2 million cash deficit of the Consolidated Revenue Fund to Government's total consolidated deficit of $690.8 million.

Figure 9

Actual Cash and Accrual Deficit for Government Departments and Government's Actual Consolidated Deficit
Year Ended 31 March 2003
($ Millions)

	2003
Cash Deficit of Government Departments (Public Accounts - Volume III)	$ (36.2)
Increase the deficit for:	
Pension costs	(312.8)
Decrease in accounts and taxes receivable	(71.4)
Foreign exchange losses	(44.0)
Increase in accounts payable	(34.6)
Sinking fund earnings	(14.0)
Bad debt expense	(8.2)
Capital debt expense	(5.5)
Amount capitalized (Loans, Advances and Investments)	(1.8)
Decrease the deficit for:	
Reduction in loan allowance	13.1
Write-offs	6.7
Other adjustments	0.6
Accrual Deficit for Government Departments (Public Accounts - Volume II)	(508.1)
Increase deficit for net losses of Government agencies:	
Labrador Transportation Initiative Fund	(35.1)
Newfoundland and Labrador Education Investment Corporation	(29.9)
Health Care Boards	(16.1)
Decrease deficit for net income of Government Agencies:	
Newfoundland Liquor Corporation	92.4
Newfoundland and Labrador Hydro	58.0
Other entities	6.1
Newfoundland and Labrador Housing Corporation	3.9
School Boards	1.6
Adjustments to deficit of Government Departments:	
Bad debt expense recorded in Government departments relating to Agencies	(42.6)
Income of Government Agencies transferred to the Consolidated Revenue Fund	(221.0)
Government's Actual Consolidated Deficit (Public Accounts - Volume I)	$(690.8)

Source: Consolidated Revenue Fund Financial Statements, Consolidated Summary Financial Statements and Government Accounting Records

Comments on Selected Financial Information

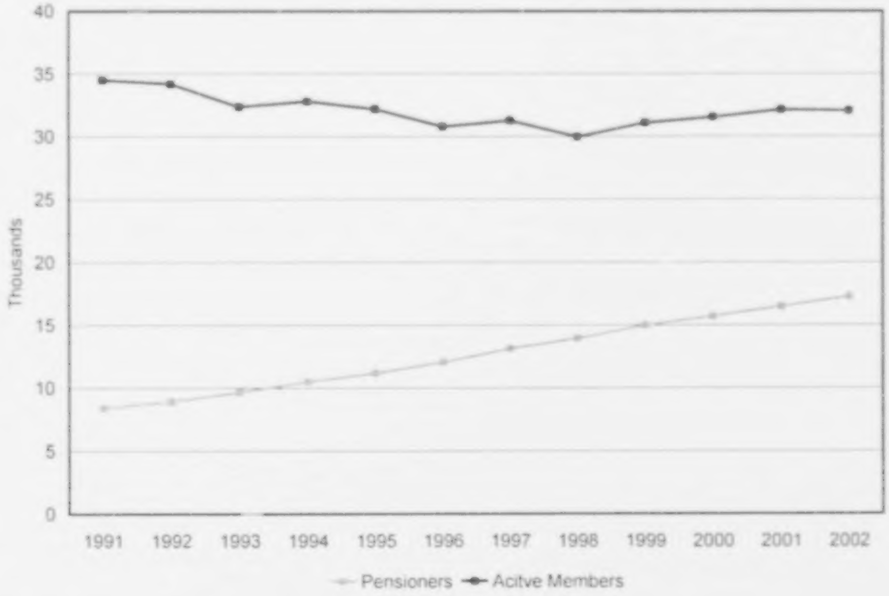
6.1 Employee Pension Obligations

Prior to 1967, public service salaries and pension benefits were paid under the authority of the *Civil Service Act*. Under that legislation there were no employee or employer contributions to a pension plan and pension benefits were paid out of the Consolidated Revenue Fund. In 1967, legislation was enacted which required that employees contribute to a pension plan. Employees' pension premiums were paid into the Consolidated Revenue Fund and pension benefits continued to be paid out of it.

In 1981, legislation was enacted which created the Province of Newfoundland and Labrador Pooled Pension Fund and required that employee and employer pension premium contributions be paid into the Fund. Subsequent to the establishment of the Fund, pension benefits were paid by the Fund irrespective of whether the employee had contributed pension premiums to it. Figure 1 provides historical data for the Fund relating to pensioners and active members for the past 12 years.

Figure 1

Province of Newfoundland and Labrador Pooled Pension Fund
Population History: Pensioners and Active Members
Years Ended 31 December
(000's)



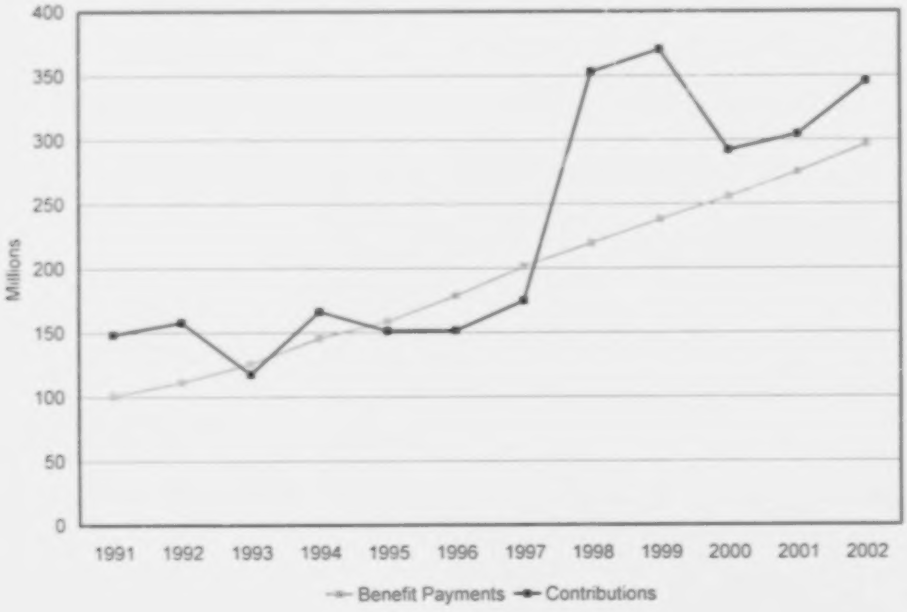
Comments on Selected Financial Information

At 31 December 2002, the Province of Newfoundland and Labrador Pooled Pension Fund was comprised of four pension plans: the Public Service Pension Plan, the Teachers' Pension Plan, the Uniformed Services Pension Plan, and the Members of the House of Assembly Pension Plan. All employee and employer contributions are deposited into the Fund and pension benefits to plan members and other pension payments are made from it.

Our review disclosed that for the year ended 31 December 2002, approximately 32,000 employees, Members of the House of Assembly, and the employer paid pension premiums totalling $345.6 million into the Pension Fund under the four pension plans. Premiums of $345.6 million include a $143.5 million contribution by Government in excess of matching provisions. During the same period, the Fund provided benefits totalling $296.3 million to approximately 17,300 retirees. Figure 2 provides historical data for the Fund relating to pension benefits paid and pension contributions received for the past 12 years.

Figure 2

Province of Newfoundland and Labrador Pooled Pension Fund
Pension Benefit Payments and Contributions
Years Ended 31 December
($ Millions)

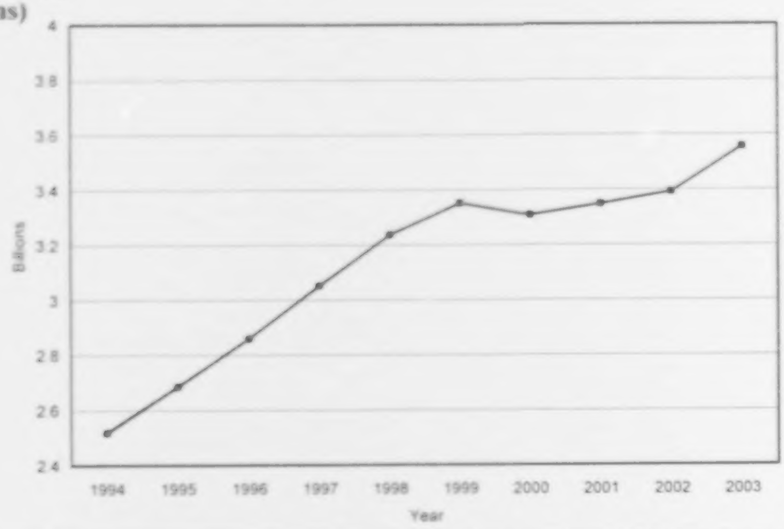


Comments on Selected Financial Information

The unfunded pension liability represents a significant debt for Government which at 31 March 2003 was $3.56 billion. Information on the unfunded liability as at 31 March for the years ended 1994 to 2003 is outlined in Figure 3.

Figure 3

Consolidated Summary Financial Statements
Unfunded Pension Liability
As at 31 March
($ Billions)



Commencing during the 1997-98 fiscal year, Government started to make special payments to the Public Service Pension Plan to address the unfunded liability. Government contributed $30 million in each of 1997-98 and 1998-99, $40 million in each of 1999-2000, 2000-01 and 2001-02, and $45 million in 2002-03. Government's contribution will increase to $60 million in 2003-04 and continue at that level until the unfunded liability is extinguished. In addition, Government increased the contributions for employees and employers by 1.0%, which was in effect as of January 2000.

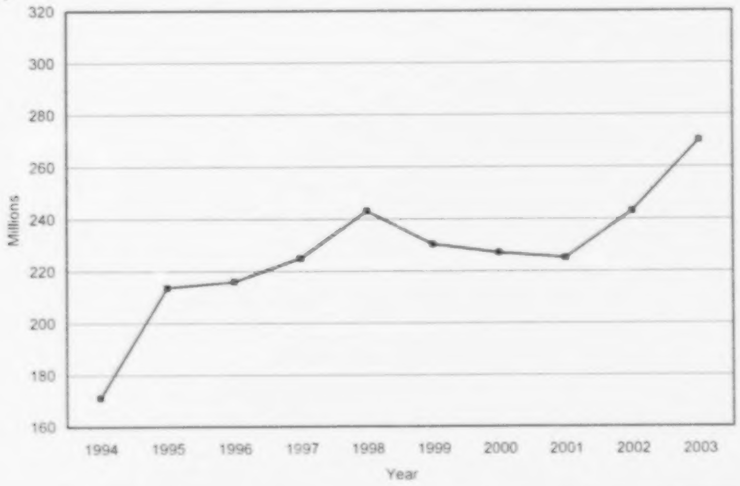
During 1998-99, Government negotiated a collective agreement with the Newfoundland and Labrador Teachers' Association which included provisions to address the unfunded liability of the Teachers' Pension Plan. In accordance with the agreement, Government will contribute up to $815 million to the Plan over a 14 year period. Government paid $166 million towards this commitment in 1998-99 and 1999-00 and paid $76 million in 2000-01, 2001-02 and 2002-03. Additional annual payments are to be made in instalments of $76 million until the remaining balance of an initial obligation of $815 million, plus interest, has been paid.

As at 31 March 2003, the unfunded liability for the Uniformed Services Pension Plan was $185.3 million and was estimated to increase to $339 million by 2030. The unfunded liability for the Members of the House of Assembly Pension Plan at 31 March 2003 was $38.3 million and was estimated to increase to $97 million by 2030. The Province has agreed to make annual payments of $20 million and $7.5 million to the Uniformed Services Pension Plan and the Members of the House of Assembly Pension Plan respectively, for five years, which commenced in 2001-02.

While Government has taken action to address the unfunded liability of the four pension plans, the net unfunded liability, including unamortized experience gains and losses, continues to increase. As at 31 March 2003 the unfunded pension liability was $3.56 billion, an increase of $164 million from the balance of $3.39 billion as at 31 March 2002. The liability increased even though Government made special payments totalling $148.5 million during the year. One of the main reasons for the increase in the unfunded liability was the significant interest costs associated with the unfunded pension liability. The interest costs relating to the pension plans each year since 1994 are outlined in Figure 4.

Figure 4

Consolidated Summary Financial Statements
Interest Costs on the Unfunded Pension Liability
Years Ended 31 March
($ Millions)



Recommendation

Government should continue its efforts to address its unfunded pension liability.

6.2 Debt

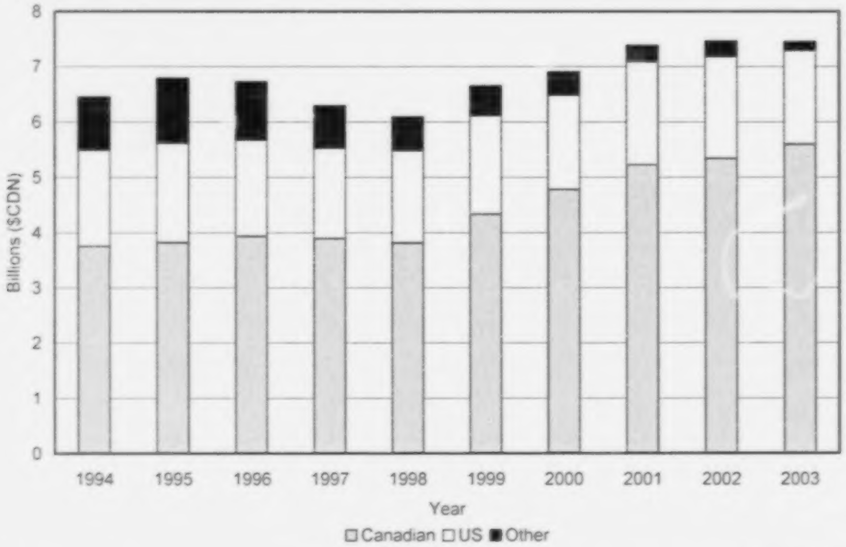
As at 31 March 2003, borrowings were reported in the Consolidated Statement of Financial Position at $6.63 billion, which represents total borrowings of $7.45 billion less sinking fund assets of $819 million. Total borrowings consist of general debentures, amounts borrowed from the Government of Canada and its agencies, as well as other notes and loans payable by the Province. The total debt of the Province, net of sinking fund assets for various debentures, is comprised of $5.92 billion in debt reflected in the Consolidated Revenue Fund, $326 million in Newfoundland and Labrador Municipal Financing Corporation debt, $63 million in Newfoundland and Labrador Housing Corporation debt, $214 million in health care organizations, $14.6 million in school boards, and other miscellaneous debt of $99.9 million.

The borrowings of $6.63 billion do not include the borrowings of Newfoundland and Labrador Hydro. This accounting policy is in accordance with the recommendations of the Canadian Institute of Chartered Accountants which requires that the net equity position of a government business enterprise such as Newfoundland and Labrador Hydro be recorded in the Consolidated Summary Financial Statements of the Province. In the audited financial statements of Newfoundland and Labrador Hydro for the year ended 31 December 2002, the Corporation reported debt of $1.6 billion.

Figure 5 shows the total borrowings owing as at 31 March for each year from 1994 to 2003 as disclosed in the Consolidated Statement of Financial Position. The figure provides a breakdown of Canadian and foreign currency debt.

Figure 5

Consolidated Summary Financial Statements
Borrowings
As at 31 March
($ Billions)



The Province's Borrowing Program

The Department of Finance is responsible for arranging and directing the annual borrowing requirements of the Consolidated Revenue Fund. The Provincial Budget determines how much capital market borrowing is required for a fiscal year. The Department monitors the capital markets and provides advice on when and where to borrow. For the 2002-03 fiscal year the Province borrowed $450.0 million compared to the estimated total borrowing requirements of $388.4 million. In addition, Newfoundland and Labrador Municipal Financing Corporation, Newfoundland and Labrador Housing Corporation, and other entities included in the Consolidated Summary Financial Statements borrowed $72.3 million, for total borrowing of $522.3 million. Figure 6 compares the Province's estimated and actual borrowing requirements for 2002-03.

Figure 6

Consolidated Summary Financial Statements
Borrowing Requirements
Year Ended 31 March 2003
($ Millions)

	Estimate	Actual
Consolidated Revenue Fund		
Current Account	(13.3)	(88.6)
Capital Account	106.6	124.8
Cash Deficit	93.3	36.2
Debt Redemptions	181.5	180.0
Foreign Exchanges Losses	-	20.5
Sinking Fund Contributions	43.0	39.9
Retirement of Pension Liabilities	148.5	148.5
Wind of up Voluntary Sinking Funds	(77.9)	(40.0)
Increase in Temporary Investments	-	1.8
Treasury Bill Borrowings Net of Repayments	-	1.0
Writeback of Revenues and Expenditures	-	42.7
Other	-	19.4
	388.4	450.0
Government Crown Agencies	-	72.3
Total	**$ 388.4**	**$ 522.3**

As Figure 6 indicates, although Government estimated it would be required to borrow $388.4 million for the Consolidated Revenue Fund for the year ended 31 March 2003, it actually borrowed $450.0 million.

Many of the debentures held by the Province have sinking fund requirements. As well, the Province voluntarily maintains sinking funds for Canada Pension Plan and other debentures. Sinking funds are a pool of cash and investments accumulated during the life of the debentures to repay the debt at maturity. Figure 7 is a summary of sinking funds at 31 March 2003 along with the related debenture debt outstanding and the net amount left after reducing the debt by the amount of the sinking funds.

Figure 7

Consolidated Summary Financial Statements
Borrowings and Sinking Funds
As at 31 March 2003
($ 000's)

	Debt Outstanding	**Sinking Fund Balance**	**Balance net of Sinking Fund**
Total Debt With Statutory Sinking Funds	$3,567,197	$632,323	$2,934,874
Total Debt With Voluntary Sinking Funds	725,687	186,294	539,393
Total Debt Without Sinking Funds	3,159,766	-	3,159,766
Total	**$7,452,650**	**$818,617**	**$6,634,033**

Figure 8 shows borrowings net of sinking funds for each of the past ten years.

Figure 8

Consolidated Summary Financial Statements
Borrowings and Sinking Funds
As at 31 March
($ Millions)

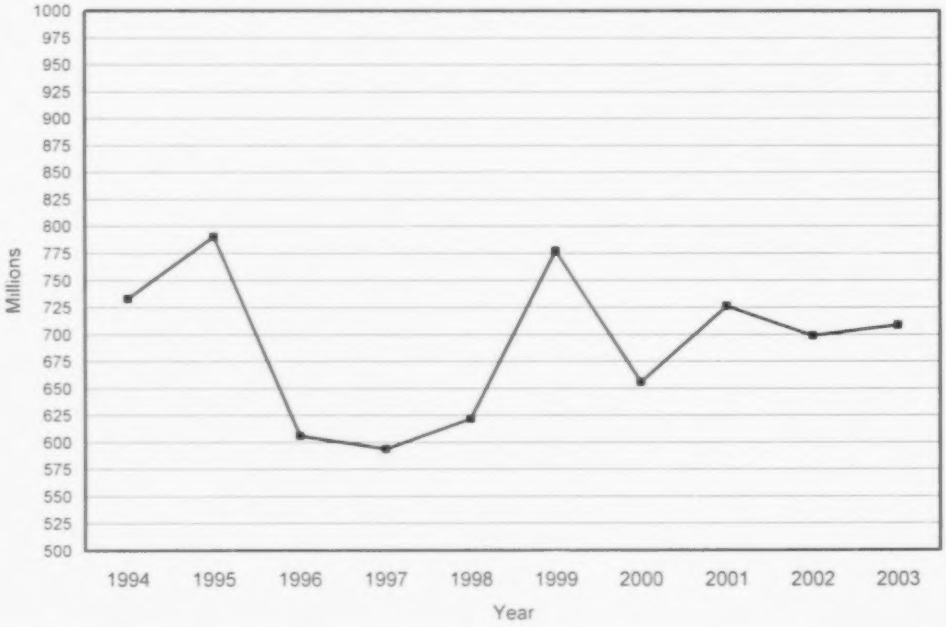
	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Borrowings	$ 6,449	$ 6,795	$ 6,725	$ 6,291	$ 6,093	$ 6,654	$ 6,909	$ 7,384	$ 7,464	$ 7,453
Sinking Funds	999	1,002	945	985	1,042	1,097	1,210	1,284	1,007	819
Net Debt	**$ 5,450**	**$ 5,793**	**$ 5,780**	**$ 5,306**	**$ 5,051**	**$ 5,557**	**$ 5,699**	**$ 6,100**	**$ 6,457**	**$ 6,634**

Comments on Selected Financial Information

The Province's debt expense for 2002-03 as recorded in the Consolidated Summary Financial Statements is $979.0 million, which consists of $270.2 million of pension interest expense on the unfunded pension liability and $708.8 million which relates to the cost of servicing the Province's debt. The cost of servicing the Province's debt each year from 1994 through to 2003 is outlined in Figure 9.

Figure 9

Consolidated Summary Financial Statements
Debt Servicing Costs (Excluding Pension Interest Expense on the Unfunded Liability)
Years Ended 31 March
($ Millions)



The Province's credit rating will affect the debt servicing costs over time because the interest that the Province will have to pay on its borrowing will decrease as the credit rating improves and conversely the interest costs will increase as the credit rating declines.

The Province's credit ratings as established by the three most recognizable rating agencies are outlined in Figures 10, 11 and 12.

Figure 10

Province of Newfoundland and Labrador Credit Ratings Established by Dominion Bond Rating Service

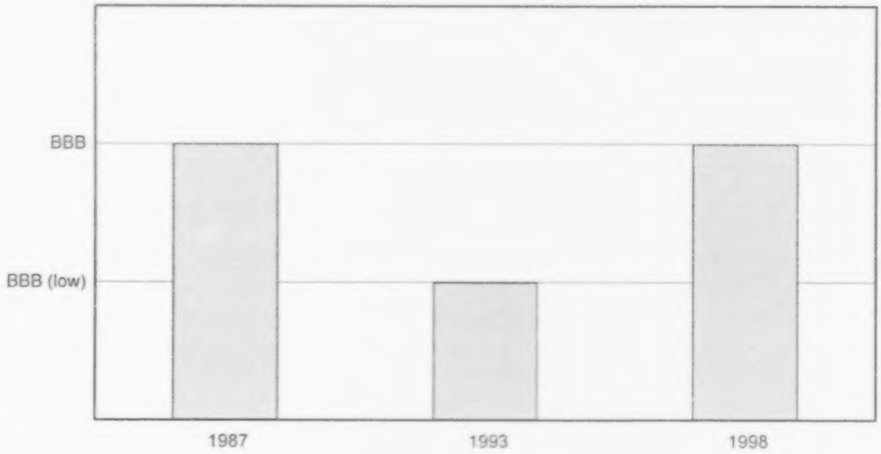


Figure 11

Province of Newfoundland and Labrador Credit Ratings Established by Moody's Investors Service

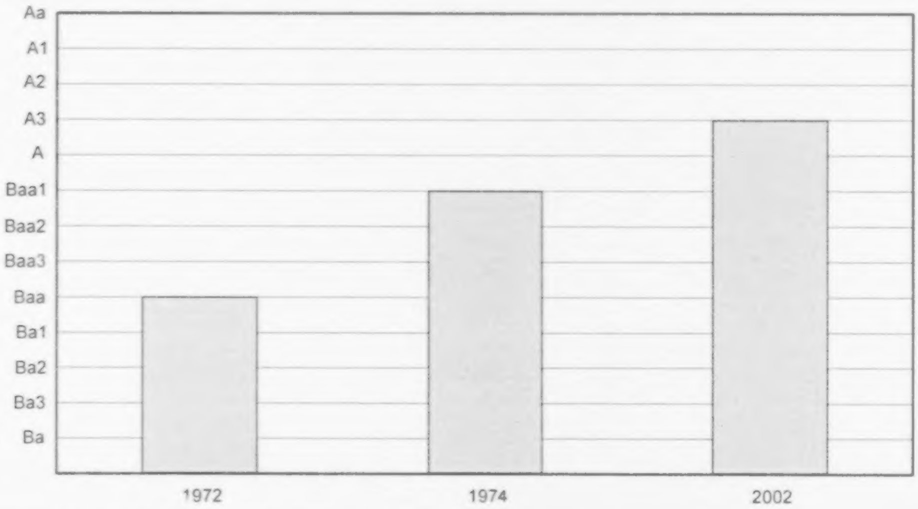
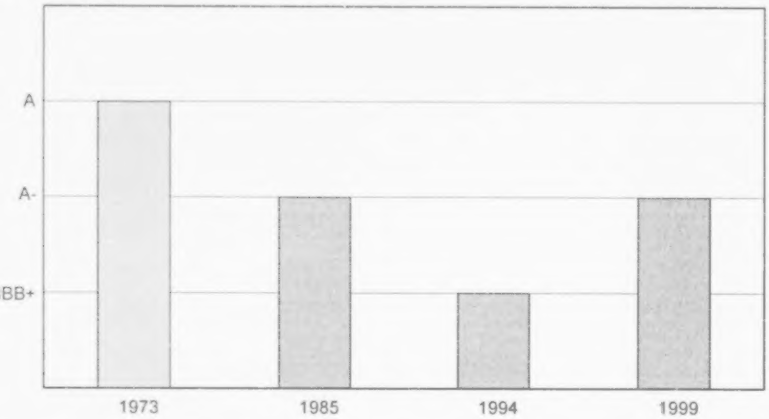


Figure 12

Province of Newfoundland and Labrador Credit Ratings Established by Standard & Poor's



This information shows that in recent years this Province's credit rating has improved. Figures 13, 14 and 15 outlines current comparative information on the credit ratings of all Provinces.

Figure 13

Credit Ratings Established for Canadian Provinces by Dominion Bond Rating Service

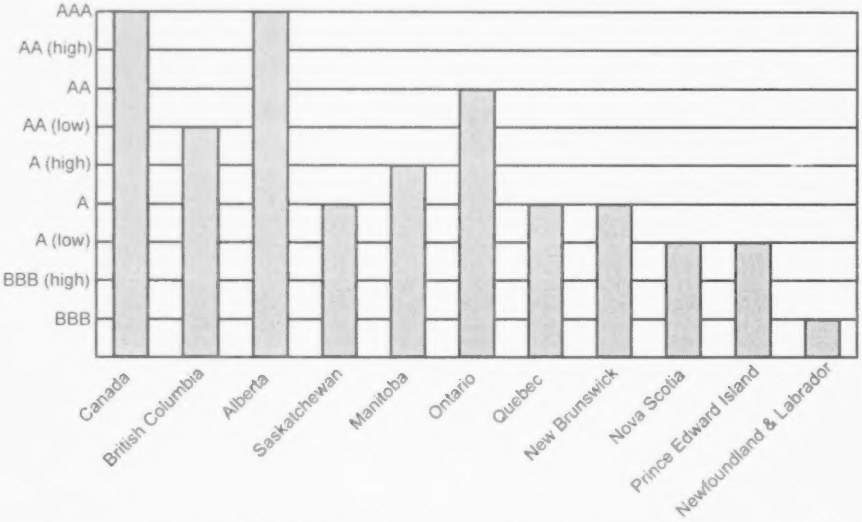


Figure 14

Credit Ratings Established for Canadian Provinces by Moody's Investors Service

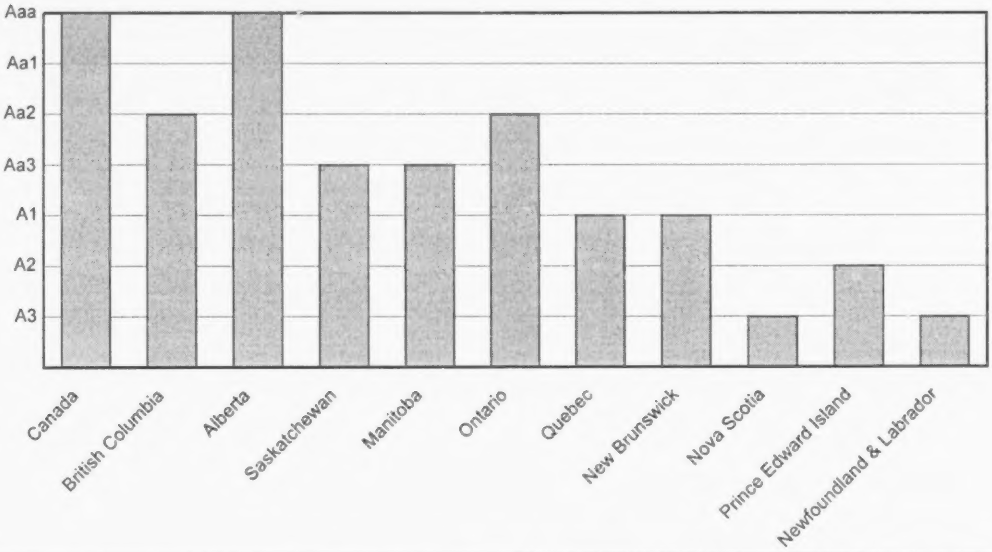
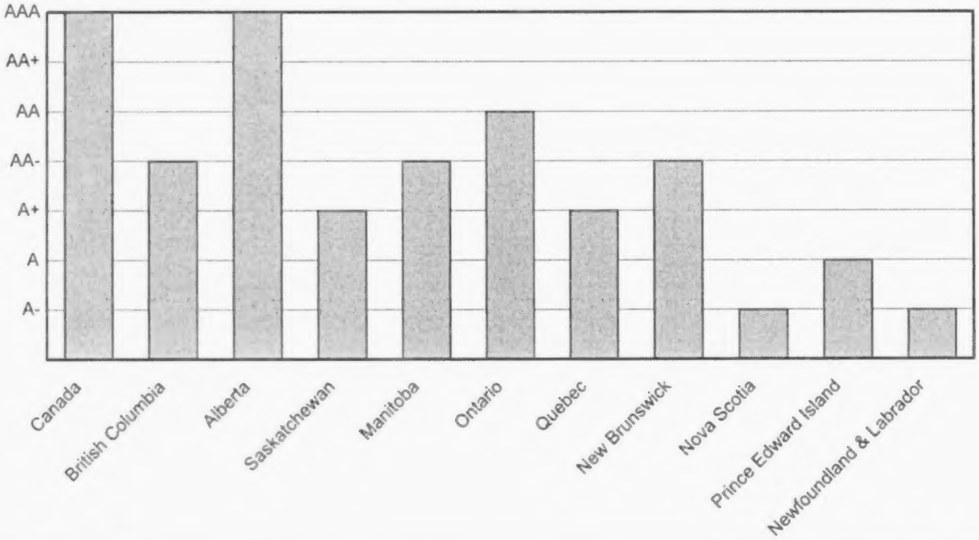


Figure 15

Credit Ratings Established for Canadian Provinces by Standard & Poor's



6.3 Loan Guarantees

A loan guarantee represents an undertaking by the Province that it will pay the outstanding principal and interest relating to a guaranteed obligation in the event of a default by the borrower. These guarantees may be used to support regional development or to provide economic assistance to certain industries or individuals who meet specified criteria. The Province has guaranteed the repayment of principal and interest of certain debentures and bank loans on behalf of municipalities, individuals, and private and Crown corporations.

The responsibility for the issuance of these guarantees rests with the Minister of Finance.

These guarantees are not recorded as a direct liability of the Province because they become such only in the event of default. Accordingly, outstanding guarantees are disclosed in a schedule to the Consolidated Summary Financial Statements. A summary of these guarantees is presented in Figure 16.

Figure 16

Consolidated Summary Financial Statements
Loan Guarantees
As at 31 March
($ 000's)

Description of Guarantee	2002		2003	
	Amount	%	Amount	%
Debentures				
Newfoundland and Labrador Hydro	$1,319,944	96.7	$1,461,052	97.6
Municipalities	1,276	0.1	1,099	0.1
Newfoundland Liquor Corporation	209	-	105	-
Bank Loans				
Fisheries	30,315	2.2	29,589	2.0
Mortgages	4,649	0.4	3,976	0.2
Corporate	1,641	0.1	1,757	0.1
Municipalities	580	-	75	-
Other	7,000	0.5	-	-
Total	**$1,365,614**	**100.0**	**$1,497,653**	**100.0**

Comments on Selected Financial Information

The Canadian Institute of Chartered Accountants recommends that loan guarantees be accounted for and reported as contingent liabilities and that a provision for losses on loan guarantees be established when it is determined that a loss is likely. At 31 March 2003 the Province has established a provision of $0.8 million for expected losses on loan guarantees.

Office of the Auditor General

Government of Newfoundland & Labrador

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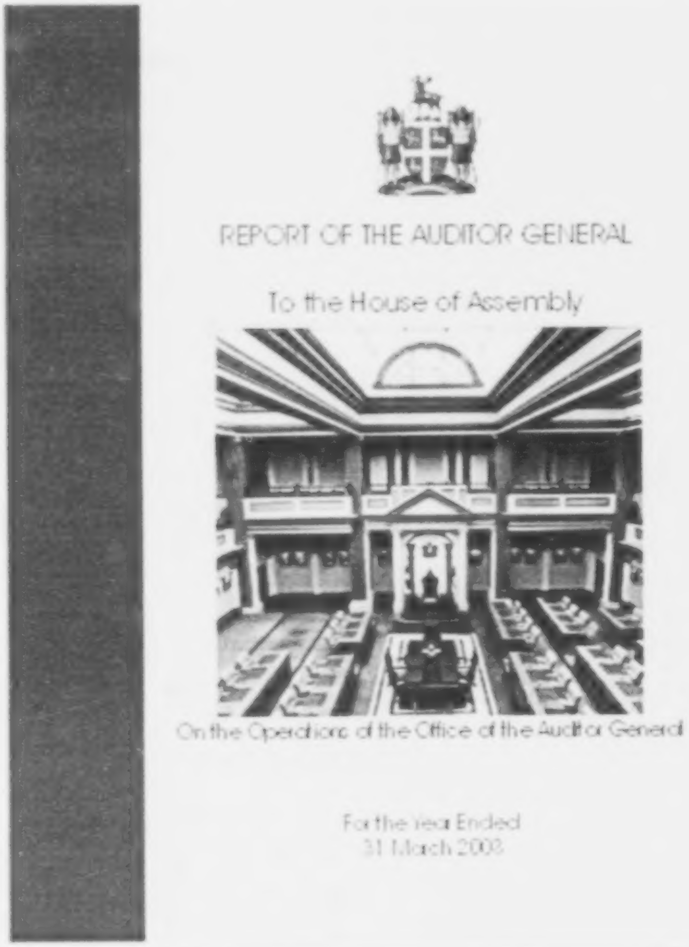

REPORT OF THE AUDITOR GENERAL

To the House of Assembly

On the Operations of the Office of the Auditor General

For the Year Ended
31 March 2003

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Auditor General of Newfoundland and Labrador

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Mission Statement

The Office of the Auditor General serves the House of Assembly by providing independent examinations of Government and its entities.

As legislative auditors, we audit financial statements and other accountability documents, evaluate management practices and control systems, and determine compliance with legislative and other authorities.

Our purpose is to promote accountability and encourage positive change in the stewardship, management and use of public resources.

Reflections of the Auditor General

This Report to the House of Assembly on the operations of the Office of the Auditor General is intended to provide a clear focus on the accountability of my Office. My goal is to provide all Members of the House of Assembly with a full accounting of what happened at the Office during the year - our plan, our budget and the results achieved.

The Office is proactive in planning and focusing its resources to achieve the objectives outlined in its strategic and operational plans. Chapter 4 of this Report provides a comparison of our performance against the goals established for our lines of business outlined in the Strategic Plan.

The Office incurred expenditures of $2.2 million during 2003 in order to complete our work. Our budget is provided by the Commission of Internal Economy and approved by the House of Assembly. Salaries for our 35 staff (30 in St. John's and 5 in Corner Brook) account for over 80% of total expenditures. Chapter 5 of this Report provides information related to our financial accountability.

I am pleased with the performance of the Office during the second year of my tenure as Auditor General. The following are highlights of our work:

- The Office completed the audit of the Public Accounts of the Province for the year ended 31 March 2003 and issued the *Report on the Audit of the Financial Statements of the Province* which was presented to the Speaker of the House of Assembly on 15 November 2003. This Report provided information on key indicators of the state of Government's finances and highlighted three specific areas - the Financial Condition of Government, the Unfunded Pension Liability and the Budget.

- My *Report on Reviews of Departments and Crown Agencies* was presented to the Speaker of the House of Assembly on 16 December 2003. This Report included 37 separate items as well as an update on the status of recommendations from prior years' report items. The Report highlighted issues in three specific areas - accountability, compliance with legislation and inspections.

- The Office completed the financial statement audit of 29 Crown agencies. Issues identified during these audits were reported to management for their consideration. The Office also reviewed the financial statements and management letters for 51 Crown agencies which were audited by private sector auditors. Information relating to these reviews was included in Section 2.6 of my *Report on Reviews of Departments and Crown Agencies.*

Reflections of the Auditor General

- As a result of a request from the Public Accounts Committee, my Office was pleased to perform reviews of three zonal boards during the year, the results of which were included in Sections 2.24, 2.25 and 2.26 of my *Report on Reviews of Departments and Crown Agencies.*

As an Officer of the House of Assembly, the Auditor General provides an independent, unbiased, and informed opinion on matters that are considered to be significant to the Members of the House of Assembly. The Office is committed to promoting accountability and encouraging positive change in the stewardship, management and use of public resources. I would welcome feedback from any Member of the House of Assembly that would assist me with this goal.

In closing, I wish to thank my staff for their hard work, professionalism and dedication.

JOHN L. NOSEWORTHY, C.A.
Auditor General

Our Mandate

2.1 Accountability and the Role of the Legislative Auditor

The way Government spends public money is very important to Newfoundlanders and Labradorians.

Control of the public purse is carried out on behalf of the people by their elected representatives, the Members of House of Assembly. While it is up to Government to draft budgets and spending estimates, it cannot collect or spend taxpayers' money without the approval of the House of Assembly. After Government spends the money entrusted to it, there is an obligation to report back to the House of Assembly on how the money was used. This, the obligation to answer for actions taken, is the basis of the accountability relationship that exists between Government and the House of Assembly.

As the governing body in this accountability relationship, the House of Assembly is responsible for (1) overseeing the activities of Government and (2) holding Government accountable for its handling of public money. To assist this process, the Government provides information about how it used the public funds entrusted to it.

But what assurance do Members of the House of Assembly have that this information is appropriate, credible and complete? How can Members know that the information they receive accurately reflects the results of the activities of Government?

The House of Assembly in this Province, as in Legislative Assemblies in other jurisdictions in Canada, uses the services of an Auditor General to assist it in carrying out its oversight responsibilities. Historically, the Assemblies have understood well the need for an independent Legislative Auditor and recognized the position's unique contributions to the public accountability process.

From the view of legislators, the value of Legislative Auditors has not simply been in their technical expertise, it has also been in their ability to conduct audits that may not please those being examined, and to report their findings publicly. This has made their roles indispensable. They have subjected the operations of the public sector as a whole to regular, independent examinations, acting first and foremost in the public interest, as acknowledged champions of open and transparent government.

Defining the unique and vital role of Legislative Auditors in the public accountability process revolves around four key points: their independence; their mandate; their reporting obligations; and their expertise in public sector matters.

2.2 Independence: The Cornerstone of Legislative Auditing

Independence, the state of being impartial and free from bias and conflicts of interest, is the cornerstone of legislative auditing. Anything that impedes an honest, straightforward and sincere approach to the performance of an audit will reduce public confidence.

In Canada, Legislative Auditors enjoy the confidence of legislators and the public, and their independence is unquestioned. The fact that this independence is largely backed by legislation instills public confidence in the process. For instance, were a legislative audit to reveal significant matters critical to government, those matters would, by law, have to be made known to legislators and the public.

The legislation under which the Office of the Auditor General in Newfoundland and Labrador operates is the *Auditor General Act*. This legislation was assented to on 31 October 1991. The full text of the *Auditor General Act* is presented as Appendix I to this Report.

Professional Independence

To be independent in appearance as well as in fact, Legislative Auditors have been granted the freedom to act without undue direction or interference from government.

In practice, and subject to legislation and professional standards, this means that Legislative Auditors are able to determine when and how audits will be conducted and who will conduct them. It is they, for the most part, who have the licence to set the audit program for their jurisdictions, choosing the bodies to be audited and determining the nature and scope of audits to be conducted.

From a public accountability perspective, this degree of independence is crucial. Only in this way can there be assurance that all matters of importance are subject to thorough examination, no matter how the results might reflect on those being audited.

Personal Independence

Bolstering the independence of Legislative Auditors even further, legislators, not government, generally make decisions pertaining to the auditors' appointment, tenure, reappointment, remuneration and resourcing. Such decisions are overseen and approved by each Legislative Assembly as a whole.

In this Province, the House of Assembly has assured this independence by appointing the Auditor General for a 10 year non-renewable term as an Officer of the House of Assembly, with removal permitted only for cause or incapacity. As well, the *Auditor General Act* provides the Auditor General with immunity from legal action.

2.3 A Comprehensive Legislative Mandate

Being an Officer of the House of Assembly means being, above all, responsive to the Assembly's interests and wishes. This position as the Assembly's Officer, combined with the responsibility to audit the whole of Government, is what sets Legislative Auditors apart from other audit professionals working in the government sector.

Whole- of-Government Mandate

The Auditor General is the only official channel through which the House of Assembly is regularly and consistently kept informed of Government's stewardship of public funds.

The House of Assembly has granted the Auditor General a "whole-of-government" mandate, covering organizations as diverse as Government departments, agencies, commissions, boards and Crown corporations. In this way, the House of Assembly is assured of receiving the Auditor General's conclusions and recommendations for the entire Government entity, regardless of whether or not the executive branch of Government has hired a private sector auditor to audit a specific organization or program of Government.

Breadth of Audit Coverage

Legislative Auditors in Canada meet their auditing objectives by examining a very broad range of issues. These issues are not necessarily the same ones encountered in the private sector, mainly because of the basic differences between organizations in the private sector and those in government. For example, because government organizations have public policy objectives, the results of their operations cannot be assessed based solely on their financial statements.

Recognizing this distinction, Legislative Assemblies have broadened the scope of the work that Legislative Auditors may do to obtain the information they need to hold government accountable. This information focuses on the financial, operational and compliance-with-authorities performance of government organizations.

2.4 Reporting to the Legislative Assemblies

As an independent Officer, the Auditor General reports directly to the House of Assembly, at least annually, on anything the Auditor General feels should be brought to the Members' attention. The reports become a matter of public record and cover a wide range of issues of interest to legislators and the public, including compliance, evaluation of accountability relationships, management practices and control systems, and review of program results compared to established criteria. Having one auditor reporting to the House of Assembly is an efficient and effective means of ensuring that Members receive the information they need to hold Government accountable. The Auditor General also has direct access to the Public Accounts Committee. This provides a formal means of discussing reported audit findings with Members.

2.5 Expertise in Public Sector Matters

As a result of working exclusively in the public sector, Legislative Auditors have acquired extensive corporate and operational knowledge of government. They are specialists in the field of public sector auditing and their credibility with legislators (for example, on topics such as emerging public sector trends and accountability issues) is thus well established. Given their extensive interaction with legislators, Legislative Auditors are in the notable position of being aware of, and understanding legislators' concerns.

Furthermore, having a whole-of-government mandate has allowed Legislative Auditors to speak to legislators about broad government matters and to better identify those accountability and performance issues that have the greatest impact on government. As a consequence, Legislative Auditors are better able to promote consistency of accounting across government organizations, and to make informed decisions about the selection, conduct and reporting of audits.

2.6 To Whom are the Legislative Auditors Accountable?

Questions are raised from time to time about what the appropriate involvement and role of a Legislative Auditor should be and to whom Legislative Auditors are accountable?

The fact is, Legislative Auditors fulfill a distinctive position in the accountability regime of governments. They have been able to serve the accountability relationship between government and Legislative Assembly because they have sufficient independence from government to be credible, they have mandates that are set out in legislation, and they have the forums to report directly to their Assembly. Moreover, they have acquired the necessary expertise to carry out their role effectively.

Such independence as that bestowed on Legislative Auditors requires that they themselves be accountable to their respective Legislative Assemblies. This means that Legislative Auditors are obligated to report directly to the Assembly on how they carry out their responsibilities and how the services they are providing add value to the accountability process. This Report is one of the means by which this accountability reporting is provided.

The resources available to the Auditor General are determined through discussion with the Commission of Internal Economy. This Commission is a Committee of the House of Assembly, over which the Speaker of the House presides, and is responsible for all matters of financial and administrative policy affecting the House of Assembly, its Offices (including the Office of the Auditor General) and its staff. The *Auditor General Act* requires that estimates of the sums required to be provided by the Legislature for the payment of salaries and other expenses of the Office of the Auditor General be submitted to the Commission for its approval. As well, each year, the financial statements for the Office are audited by an auditor appointed by the Commission, with the audited statements being tabled in the House of Assembly.

2.7 The Office of the Auditor General in Newfoundland and Labrador

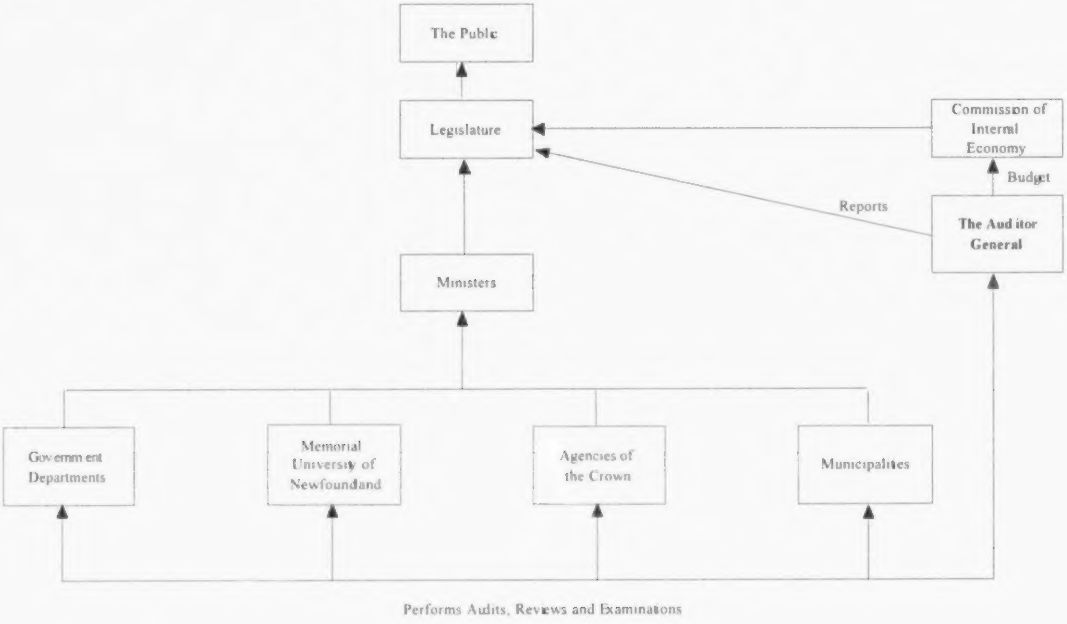
The Office of the Auditor General in Newfoundland and Labrador is the independent Legislative Auditor of Government, its departments, all agencies of the Crown and Memorial University of Newfoundland. Implicit in the *Auditor General Act* is the requirement for the Auditor General to provide the House of Assembly with timely, relevant information, necessary to enhance public sector accountability and performance.

Public sector accountability is based on the premise that governing bodies are best served by knowing whether the responsibilities conferred on government departments and agencies are satisfactorily performed and intended results are achieved. The Auditor General brings an independent audit process to the manner in which these conferred responsibilities are discharged in the public sector and reports directly to the House of Assembly on the results of these audits. The role of the Auditor General complements the accountability relationship which exists between Government, its departments, agencies of the Crown, Memorial University of Newfoundland, municipalities, and the House of Assembly, as illustrated in Figure 1.

Our Mandate

Figure 1

Office of the Auditor General Accountability Relationship


The Public
Legislature
Commission of Internal Economy
Budget
Reports
The Auditor General
Ministers
Government Departments
Memorial University of Newfoundland
Agencies of the Crown
Municipalities
Performs Audits, Reviews and Examinations

The Auditor General reports to the House of Assembly on significant matters which result from the examinations of Government, its departments and agencies of the Crown and Crown controlled corporations.

The Auditor General is also the independent auditor of the Province's financial statements and the financial statements of many agencies of the Crown and, as such, expresses an opinion on these financial statements.

A list of Departmental audits performed by our Office is included as Appendix II. A list of agencies of the Crown and other entities whose financial statement audits are performed by our Office is included as Appendix III. A list of agencies of the Crown and other entities whose financial statement audits are performed by private sector auditors is included as Appendix IV.

Our Mandate

Section 12 of the *Auditor General Act* requires the Auditor General to report, at least annually, on:

- the work of the Office;
- whether, in carrying out the work of the Office, the Auditor General received all the information including reports and explanations required;
- the results of the examination of the Province's financial statements;
- audits, examinations and inquiries performed under the *Act*; and
- the results of the examination of the accounts of the Province calling attention to anything the Auditor General considers significant relating to:
    - collections of public money;
    - disbursements of public money;
    - instances where accounts have not been faithfully and properly kept;
    - instances where assets acquired, administered or otherwise held are not adequately safeguarded or accounted for;
    - instances where accounting systems and management control systems that relate to revenue, disbursements, the safeguarding or use of assets or the determination of liabilities were not in existence, were inadequate or had not been complied with; and
    - any factors or circumstances relating to an expenditure of public money which in the opinion of the Auditor General should be brought to the attention of the House of Assembly.

Our Mandate

Planning Our Work

3.1 Strategic Plan

Strategic planning identifies strengths, weaknesses, and opportunities in order for an organization to identify future directions, goals and expected outcomes. Strategic planning is also required to develop an entity's mission, values and lines of business. It ensures effective utilization of an entity's human and financial resources at an operational level to achieve its objectives.

The Office developed its first Strategic Plan in 1994 and continues to revise this plan on a regular basis to reflect changes in our work environment. The process has resulted in the identification of an Office mission statement along with related values and lines of business.

Mission Statement

The Office of the Auditor General serves the House of Assembly by providing independent examinations of Government and its entities.

As legislative auditors, we audit financial statements and other accountability documents, evaluate management practices and control systems, and determine compliance with legislative and other authorities.

Our purpose is to promote accountability and encourage positive change in the stewardship, management and use of public resources.

Values

We believe in independence for our Office, integrity in our conduct and quality in our work. Therefore, we will:

Maintain our independence and avoid the perception of bias;

Strive for excellence in our work and seek continuous improvement in our use of technology, methodology and training;

Treat all external parties with courtesy and respect; and

Conduct ourselves according to the highest professional standards.

We believe everyone should be treated with fairness and respect. Therefore, in our Office, all employees:

Are recognized and valued for contributions;

Communicate openly and work together as a team;

Receive necessary opportunities for professional and personal growth; and

Are accountable for quality performance and encouraged to improve processes.

Lines of Business

Analysis of our mandate, mission and values, review of environmental trends and our vision of the future all support the allocation of resources to the following lines of business:

- Financial Statement Audits
- Legislative Audits
- Monitoring Crown Agency Reports
- Special Assignments
- Reporting

These lines of business and related challenges, strategies and objectives form the major segment of our Strategic Plan.

In addition to the Office's Strategic Plan, we also developed an Information Technology Strategy. The IT Strategy focused on the use of information technology to improve business processes, specifically in the areas of audit services and the annual report process. The Plan also provides a focus for our information technology requirements such as hardware, software applications, and required training.

3.2 Annual Operational Plan

In order to operationalize our Strategic Plan, in December of each year our Executive and Management Group develop an annual Operational Plan for the period 1 January to 31 December of the following year. This plan includes a listing of all financial statement audits, legislative audit projects and any other audit work planned for the year. For each audit, the plan details the assignment of managers and estimates the time and resources required.

Planning Our Work

In developing our Operational Plan we first estimate the total number of hours available to the Office by applying the annual standard hours of 1,820 hours for each of our staff. We then provide for such areas as annual leave and other types of leave along with professional development to arrive at the number of hours available for our various audit work. The available hours are assigned to our five lines of business. These are: financial statement audits; legislative audits; monitoring Crown agency reports; special assignments; and completing our various reports. Each member of our audit staff is accountable to a Manager for completion of their audit assignments and is required to submit a weekly time report which records the number of hours spent in the previous week on the various assignments. In addition, each Manager is in turn required to report to the Executive Committee on the progress made in completing the assigned work.

Planning Our Work

Performance Accountability

Our Office is accountable to the House of Assembly for its performance. This section of the Report provides a comparison of our performance against the goals established for the five lines of business outlined in the Strategic Plan.

4.1 Financial Statement Audits

A financial statement audit enables the Auditor General to express an opinion as to whether the financial statements are presented fairly. The opinion is based on an independent assessment and therefore adds credibility to the information to which it is attached.

Goal 1.1

To complete all financial statement audits within three months of the fiscal year end and by 30 September for the Province's Public Accounts.

Status

Of the 29 Crown agency financial statement audits that we perform, 28 were ready for audit in sufficient time for completion within three months of the fiscal year end. The remaining agency, the Public Accountants Licensing Board, did not provide their financial statements for audit in sufficient time for completion within three months.

The audit of the Public Accounts was completed in September 2003. The Public Accounts consists of four volumes: Volume I - Consolidated Summary Financial Statements; Volume II - Consolidated Revenue Fund Financial Statements; Volume III - Consolidated Revenue Fund Supplementary Statements and Schedules; and Volume IV - Financial Statements of Crown Corporations, Boards and Authorities.

Goal 1.2

To assess the time budget for each financial statement audit to determine whether audit procedures can be reduced or eliminated.

Status

Prior to the commencement of each audit, as part of the planning phase, the time budget was reviewed to determine whether there were areas where the audit time could be reduced. At the conclusion of each financial statement audit, the time spent on the audit was reviewed in detail and compared with the original time budget.

Goal 1.3

To complete all financial statement audits within a 10% variance of budget for time.

Status

Except in instances where variances were caused by particular circumstances associated with the agency being audited, all Crown agency financial statement audits performed were completed within a 10% variance of budget for time.

The audit of the Public Accounts was also completed within this goal.

Goal 1.4

To have 100% compliance with professional standards and internal Office policy for all audits. The Office's goal is to comply with Generally Accepted Auditing Standards for all financial statement audits. The Office uses the Canadian Institute of Chartered Accountants' Professional Engagement Manual as our financial statement audit manual.

Status

To ensure compliance with these standards, each financial statement audit file is reviewed and challenged in detail by a Manager. In addition, all financial statements are reviewed by our Professional Practice Group and the Office's Executive before they are released. As a result of these processes, all financial statement audits were conducted in accordance with professional standards and internal Office policy.

4.2 Legislative Audits

Legislative audits provide the House of Assembly with an independent professional assessment of public sector accountability, thereby facilitating informed judgements on the manner in which the public sector discharges its responsibilities. Legislative audits include:

- evaluation of accountability relationships, management practices and control systems;
- assessment of compliance with legislation and other authorities; and

- performance audits of program results compared to established criteria.

Goal 2.1

We will apply our risk based management system to select audit projects.

Status

Although there is no substitute for professional judgement in determining what work we perform, we have developed a computerized risk based audit management system known as the Total Audit Universe Management System (TAUMS) to assist us with the selection of legislative audit projects. The system was developed in 1996 and is located on the network server in our Corner Brook Office. This system retains financial and other relevant information from all Crown agencies and departments as well as issues raised in management letters. The information storage and retrieval features of TAUMS permit us to prioritize projects during our planning process and address issues requiring attention.

Goal 2.2

To provide the House of Assembly with an annual accountability document on the Office of the Auditor General.

Status

For two decades, information on the work of the Office was included as a separate Chapter in our *Report to the House of Assembly on Reviews of Departments and Crown Agencies*. Last year for the first time, a separate report on the work of the Office was presented to the House of Assembly. The presentation of a separate document is intended to provide more focus on the accountability of our Office.

Goal 2.3

To have 80% of our recommendations implemented within 2 years of our report date.

Status

In 1996, we established a process to measure the extent to which Government implements our recommendations. It is our intention to monitor and update the recommendations in each report two years after it has been issued. Monitoring will continue until we are reasonably satisfied that the issues are being adequately addressed or are no longer valid.

For the eight years from 1994 to 2001 this Office made 888 individual recommendations through our various reports which were tabled in the House of Assembly. We are pleased to note that for 769 or 86.6% of these recommendations, satisfactory progress has been made or the recommendations are no longer applicable.

In 2003, Chapter 3 of our *Report to the House of Assembly on Reviews of Departments and Crown Agencies* outlined our update on prior years' report items.

Goal 2.4

To ensure a high level of quality in the legislative audit process by subjecting all reports to quality control criteria and a challenge review process.

Status

All legislative audit work is carefully planned, conducted, monitored, and reviewed in accordance with Canadian Generally Accepted Auditing Standards. The reports from this work are the final published product provided to Members of the House of Assembly. Therefore, it is imperative that the documents be factual, relevant and understandable. To achieve this objective, over the years we have undertaken a number of initiatives. Such initiatives include a rigorous challenge review process at various levels in the Office including the Executive, and providing draft reports to senior Government and Crown agency officials for validation and comment.

Goal 2.5

To complete legislative audit fieldwork by 30 April.

Status

We performed the majority of our legislative audit fieldwork during the period 1 January 2003 to 30 April 2003; however, commencing in early May 2003, resources were reallocated from legislative audits to financial statement audits of Crown agencies and the Province. In September 2003, after our financial statement audits were completed, we finalized our legislative audits through validating the findings with senior officials prior to issuing final reports. Our *Report to the House of Assembly on Reviews of Departments and Crown Agencies* for the year ended 31 March 2003 was presented to the Speaker of the House of Assembly in December 2003. We are continuing efforts in this area to achieve the goal of completing all legislative audit field work by 30 April.

4.3 Monitoring Crown Agency Reports

Our role is to assess all Crown agencies over an appropriate number of years and to report on their accountability, management practices and control systems, their compliance with legislation, their performance related to established criteria, and any weaknesses or other issues which we feel should be brought to the attention of the House of Assembly.

Goal 3.1

To monitor Crown agency financial statements and other reports throughout the year using a computerized database to maintain the results.

Status

We have developed and are using a database system known as the Total Audit Universe Management System (TAUMS). This system retains financial and other relevant information from all Crown agencies and departments as well as issues raised in management letters.

Goal 3.2

To report on the monitoring of Crown agency financial statements and other reports to the House of Assembly on an annual basis.

Status

Section 2.6 of our *Report to the House of Assembly on Reviews of Departments and Crown Agencies* contains the results of this monitoring work for the 2003 fiscal year.

4.4 Special Assignments

Under Section 16 of the *Auditor General Act*, the Auditor General may accept assignments from the House of Assembly, the Public Accounts Committee and the Lieutenant-Governor in Council. The results of these assignments are usually reported to the body making the request and also referenced in our annual *Report to the House of Assembly on Reviews of Departments and Crown Agencies.*

Goal 4.1

To perform and report on special assignments whenever requested by the House of Assembly, the Public Accounts Committee or the Lieutenant-Governor in Council.

Status

In March 2003, the Public Accounts Committee made a resolution that *"...the Auditor General be asked to consider performing an audit of the Regional Economic Development Boards in the Province..."*. Further to this resolution, I performed an audit of three zonal boards during the year. As requested by the Public Accounts Committee, the results of my work were included in Sections 2.24, 2.25 and 2.26 of my *Report to the House of Assembly on Reviews of Departments and Crown Agencies* for the year ended 31 March 2003.

Goal 4.2

To report on all special assignments conducted within six months of beginning our work.

Status

The reviews of the three zonal boards as requested by the Public Accounts Committee, were completed within the required time frame and were included in our *Report to the House of Assembly on Reviews of Departments and Crown Agencies.*

Goal 4.3

To subject all special assignment reports to quality control criteria and a challenge review process.

Status

The required quality control and challenge review process was applied to the zonal board reviews.

4.5 Reporting

The *Auditor General Act* requires that we report, at least annually, to the House of Assembly on the results of our examination of the Province's financial statements and on the results of any audits, examinations or inquiries which we have performed. In addition, when we have completed a financial statement audit, we attach our auditor's report to the financial statements and issue a management letter to the entity examined. When we perform a legislative audit, we issue a management report which includes the entity's response to any comments made.

Goal 5.1

To report on legislative audits, the financial statements of the Province, and the monitoring of Crown agencies by the end of December for the preceding fiscal year end.

Status

Our *Report to the House of Assembly on the Audit of the Financial Statements of the Province* for the year ended 31 March 2003 contains our comments on the audit of the financial statements of the Province and was presented to the Speaker of the House of Assembly in November 2003.

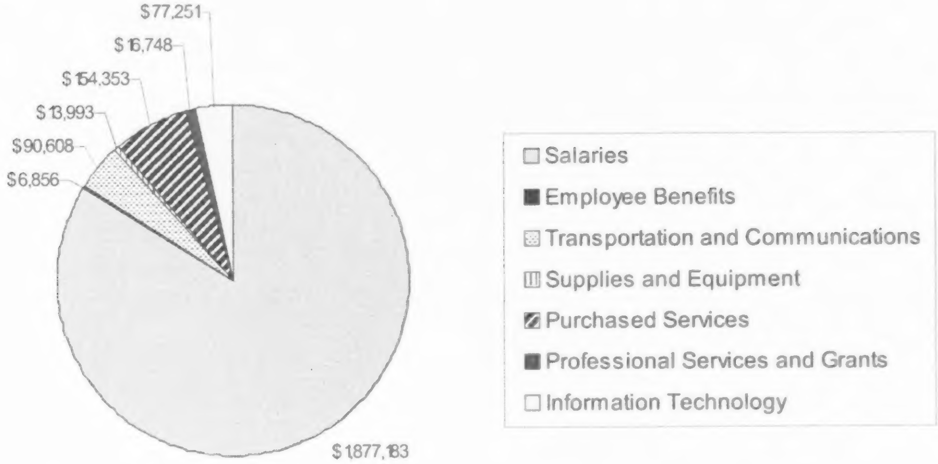
Our *Report to the House of Assembly on Reviews of Departments and Crown Agencies* for the year ended 31 March 2003 contains our comments on the result of our legislative audits and was presented to the Speaker of the House of Assembly in December 2003.

5.1 Expenditure of the Office

The gross expenditure of the Office totalled $2.2 million for the year ended 31 March 2003. The Office operated within the budget provided by the Commission of Internal Economy and approved by the Legislature. Information on the total expenditure of the Office for the year ended 31 March 2003 is presented in Figure 2.

Figure 2

Expenditure of the Office
Year Ended 31 March 2003



Approximately 91% of the Office's total expenditure relates to non-discretionary spending for such items as salaries, rent, equipment rental and telephone. As a result, the Office has a very small amount of discretionary spending.

In accordance with Section 33 of the *Auditor General Act*, estimates for the Office of the Auditor General are approved by the Commission of Internal Economy for inclusion in the Estimates of the Province. Section 32 of the *Act* requires that the accounts of the Office be audited annually by an independent public accountant appointed by the Commission.

5.2 Financial Statements

The following are the financial statements for the Office for the year ended 31 March 2003 which were audited by an auditor appointed by the Commission of Internal Economy.

Deloitte & Touche LLP
Deloitte & Touche Inc.
Fort William Building
10 Factory Lane
St. John's, NL A1C 6H5
Canada

Tel: (709) 576 8480
Fax: (709) 576 8460
www.deloitte.ca

**Deloitte
& Touche**

Auditors' Report

To the Commission of Internal Economy
House of Assembly
Province of Newfoundland and Labrador

In accordance with Section 32 of The Auditor General Act, we have audited the schedule of assets and liabilities of the Office of the Auditor General, Province of Newfoundland and Labrador as at March 31, 2003, the statement of expenditure and related revenue and the statement of gross expenditure and unexpended balances for the year then ended. This financial information is the responsibility of the Office's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, this financial information presents fairly, in all material respects, the assets and liabilities of the Office as at March 31, 2003 and the results of its operations for the year then ended in accordance with the accounting policies disclosed in Note 1 to the financial information.

The financial information as at March 31, 2002 and for the year then ended was audited by other auditors who expressed an opinion without reservation.

Deloitte & Touche LLP

Chartered Accountants
January 9, 2004

OFFICE OF THE AUDITOR GENERAL
PROVINCE OF NEWFOUNDLAND AND LABRADOR
Schedule of Assets and Liabilities
March 31, 2003

	2003 $	2002 $
ASSETS		
CURRENT		
Audit fees billed and in progress	**36,292**	90,853
Travel imprests	**1,200**	1,200
Accountable advance	**200**	200
	37,692	92,253
LIABILITIES		
CURRENT		
Accrued leave	**463,524**	378,832
Accrued payroll	**30,065**	27,231
Accrued severance pay	**451,116**	397,280
Accrued overtime	**5,773**	-
	950,478	803,343

OFFICE OF THE AUDITOR GENERAL
PROVINCE OF NEWFOUNDLAND AND LABRADOR
Statement of Expenditure and Related Revenue
Year ended March 31, 2003

	2003			2002
		Estimates		
	Actual $	Amended $	Original $	Actual $
EXECUTIVE SUPPORT				
Salaries	120,618	120,700	127,600	122,887
Salaries (statutory)	90,457	115,900	115,900	217,532
Employee benefits	1,202	1,300	4,800	1,922
Transportation and communications	10,626	17,000	17,000	11,587
Professional services	5,043	12,000	14,500	14,428
Purchased services	439	700	700	1,727
	228,385	267,600	280,500	370,083
ADMINISTRATIVE SUPPORT				
Salaries	202,561	202,700	202,500	194,897
Employee benefits	643	700	3,400	1,459
Transportation and communications	25,345	28,200	28,200	23,501
Supplies	11,239	12,200	15,100	14,829
Purchased services	153,914	154,200	151,300	142,329
Property, furnishings and equipment	2,754	3,000	3,000	484
Grants and subsidies	9,100	9,100	8,500	3,650
	405,556	410,100	412,000	381,149
AUDIT OPERATIONS				
Salaries	1,463,547	1,467,700	1,628,400	1,485,333
Employee benefits	5,011	7,700	10,000	17,698
Transportation and communications	54,637	79,500	79,500	94,832
Professional services	2,605	4,000	15,000	2,500
Information technology	77,251	103,600	103,600	151,244
	1,603,051	1,662,500	1,836,500	1,751,607
Revenue - Provincial	(212,625)	(146,200)	(146,200)	(154,795)
	1,390,426	1,516,300	1,690,300	1,596,812
Net expenditures	2,024,367	2,194,000	2,382,800	2,348,044

Deloitte
& Touche

OFFICE OF THE AUDITOR GENERAL
PROVINCE OF NEWFOUNDLAND AND LABRADOR
Statement of Gross Expenditure and Unexpended Balances
Year ended March 31, 2003

	2003 $	2002 $
Original estimates (net)	**2,382,800**	2,203,900
Add: estimates transferred from other departments	-	99,900
Less: estimates transferred to the House of Assembly	**(188,800)**	-
Amended estimates	**2,194,000**	2,303,800
Add: revenue estimates net of statutory payments	**30,300**	58,300
Total appropriation	**2,224,300**	2,362,100
Total net expenditure	**2,024,367**	2,348,044
Add (Subtract): revenue in excess of statutory payments (statutory payments n excess of revenue)	**122,168**	(62,737)
Total gross expenditure (budgetary, non-statutory)	**2,146,535**	2,285,307
Unexpended balance of appropriation	**77,765**	76,793

Summary of Cash Payments and Receipts

	Payments $	Receipts $	Net $
Current account	2,236,992	212,625	2,024,367

OFFICE OF THE AUDITOR GENERAL
PROVINCE OF NEWFOUNDLAND AND LABRADOR
Notes to Financial Information
March 31, 2003

Authority

Section 3 of the Auditor General Act provides for the establishment of a department of the public service of the Province called the Office of the Auditor General. This Act was assented to on October 31, 1991.

1. Significant accounting policies

This financial information has been prepared by the Office of the Auditor General using an accrual basis of accounting, except revenues as reported in the Statement of Expenditure and Related Revenue which are recorded when invoiced. Outlined below are the significant policies followed:

(a) Assets and liabilities

Assets and liabilities are recorded on a basis consistent with the policies used in preparing the Public Accounts of the Province of Newfoundland and Labrador. Direct liabilities and convertible assets such as amounts receivable are reported in the Schedule of Assets and Liabilities.

(b) Operating expenses

The employer's portion of government personnel costs is paid by the Department of Finance and is not reflected in this financial information.

(c) Capital assets

Capital asset acquisitions are charged as budgetary expenditures and are expensed in the year they are acquired. The assets are not considered to be convertible and therefore are not capitalized and are not valued on the Schedule of Assets and Liabilities.

(d) Income taxes

The Office of the Auditor General is not subject to Provincial or Federal income taxes.

2. Pensions

Under the Auditor General Act, all persons employed in the Office of the Auditor General are employees for the purposes of the Public Service Pensions Act, 1991, and are entitled to all the benefits under that Act. No pension expenditure has been recorded in this financial information.

Our People

6.1 Our Employees

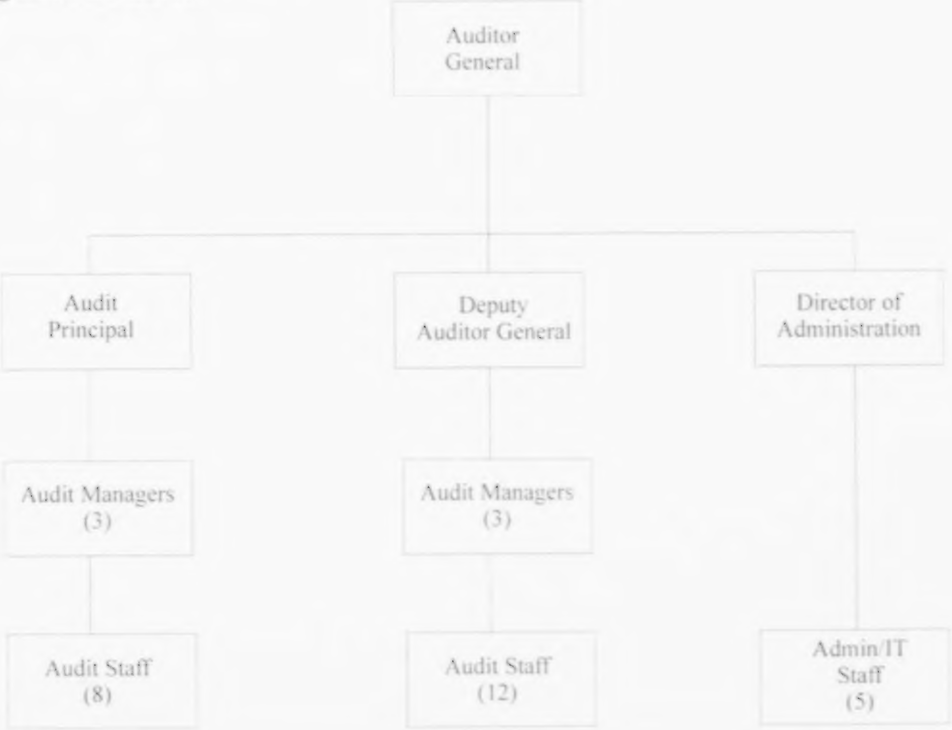
Our employees are our most valuable resource and it is their knowledge and skill that determine the quality of the work performed. The Office is organized to allow for the efficient and effective deployment of staff and to support our work.

As of 31 December 2003, our Office had 35 employees, 30 in the St. John's Office and 5 in the Corner Brook Office. Six employees work in administrative and IT support, while the remaining 29 work directly in audit. Of these 29 audit staff, 23 have professional accounting designations and 3 are in the process of completing their professional accounting program. We also have 2 people who are funded through the Employment Equity and Strategic Initiatives Division of Treasury Board Secretariat.

The organizational structure of the Office is outlined in Figure 3.

Figure 3

Office of the Auditor General Organization Chart


Auditor General
Audit Principal
Deputy Auditor General
Director of Administration
Audit Managers (3)
Audit Managers (3)
Audit Staff (8)
Audit Staff (12)
Admin/IT Staff (5)

Our People

Figure 4 is a photograph of our staff.

Figure 4

Staff of the Office of the Auditor General

Kevin Antle, CGA
Maxine Barrett
Stephen Batten
Chris Brake
Paul Burggraaf, CNA
Marsha Burke, CA
Keith Butt, CA
John Casey, CMA
Juliah Chislett, CGA
Rosemarie Crann
Gertrude Critch
Tony Dirgwell, CA
Bill Drover, FCA

Gregg Griffin
Michelle Gushue
Jeremy Hynes
Claude Janes, CA
Michelle Jewer, CA
Scott Jones
Brenda Kavanagh
Nancy King
Wayne Loveys, CMA
James Mallard, CGA
Trevor McCormick, CGA
Bill Noftall
John Noseworthy, CA

Lisa Palmer, CA
Tracy Pelley, CMA
David Ralph, CA
Tony Roestenberg, CA
Sandra Russell, CA
Tracey Slaney, CMA
Jackie Smith, CMA
Scott Walters, CA
David White, FCGA
Jim Winsor, CMA
Tony Wiseman

Our People

Figure 5 provides facts relating to the Office of the Auditor General.

Figure 5

Facts Relating to the Office of the Auditor General
As at 31 December 2003

Office Created and First Auditor General Appointed	1898
Location of St. John's Office	3rd floor Viking Building Crosbie Road
Location of Corner Brook Office	76 Mount Bernard Avenue
Total Number Staff	35
Number of Audit Staff	29
Number of Administrative and IT Support Staff	6
Number of Staff located in St. John's Office	30
Number of Staff located in Corner Brook Office	5
Number of Male Staff	21
Number of Female Staff	14
Total Average Age of All Staff	39
Average Age of Male Staff	45
Average Age Female Staff	29
Total Legislative Auditing Experience of All Staff	488 years
Total Number of staff with professional accounting designations	23
Total Number of Chartered Accountants (CA's)	12
Total Number of Certified Management Accountants (CMA's)	6
Total Number of Certified General Accountants (CGA's)	5

6.2 Supporting our Work

To support our audit staff in the performance of their work, we have established three support services in the Office with the following responsibilities:

- Administration - provides strategic and policy advice on human resource management, financial management and report publishing initiatives. At the operational level, this area also provides such services as recruitment, payroll, secretarial support, file registry and purchasing.
- Professional Practice - provides technical advice on accounting and auditing policy and practice matters. This area reviews current and emerging accounting and auditing issues within the public sector and provides comments to professional bodies and central agencies. This area also performs quality control reviews of all financial statements and certain other reports issued by the Office.
- Information Technology - provides consultation and technical support on all matters dealing with information technology. This area is responsible for implementation of the Office's information technology strategic plan. It also monitors technological developments relevant to the Office, provides ongoing operational support and assists in training activities.

In addition, the Office has established three staff committees -Human Resources, Information Technology, and Occupational Health and Safety. These Committees deal with staff and operational issues and provide recommendations to the Executive. Committee membership is on a rotational basis and all staff are encouraged to participate.

6.3 Human Resource Initiatives

The quality of our work depends on the motivation, talent and energy of our staff. Therefore, it is essential for our Office to create an environment that encourages, supports and perpetuates a commitment to our mission and values. To achieve this goal, over the years, the Office has developed a number of initiatives, including the following:

Training and Development

The Office has developed a competency model which identified the core competencies that our staff require. This model is used to identify gaps between required and actual skill sets and provides the focus for our ongoing training and development program. This process is essential to ensure that staff keep their skill sets current and relevant. For 2003, on average, each audit staff member was provided with 6 days of training and development.

Our Office encourages all audit staff to complete their professional accounting designation. We demonstrate our commitment and support of this initiative through financial assistance, study support and mentoring. During the past year we were pleased that two members of our staff, Tracey Slaney and Jackie Smith, received their Certified Management Accountant (CMA) Designation. We congratulate them on this achievement. In addition we have three members of our staff who are pursuing their professional accounting designations.

In 2003, we provided work-term placements for students from the College of the North Atlantic. During 2003, we also partnered with the Employment Equity and Strategic Initiatives Division of Treasury Board Secretariat.

Staff Secondments

Where operational requirements allow, the Office supports the professional development of staff through secondments to other positions within Government or the private sector. At the present time, we have three staff on leave of absence from their permanent positions. We have recruited audit staff to replace these employees during their periods of leave.

Compressed Leave

During the 2000 fiscal year, the Office piloted a compressed work schedule for the summer months and this has been continued during the summer months each year since that time.

Flex Time

The Office has a flex time policy which is offered year round and permits employees to vary the beginning and ending times of work within a core range of hours.

Casual Dress

The Office has a policy whereby staff can dress business casual during the summer months while working in the Office.

6.4 Involvement with the Profession

All legislative audit offices in Canada are members of the Canadian Council of Legislative Auditors (CCOLA) which serves to promote professional legislative auditing in Canada. The Planning and Coordinating Committee is the senior committee of the CCOLA. Its objectives are to facilitate the activities of the CCOLA and to monitor the achievement of the CCOLA's objectives. Mr. John Noseworthy served as Chair of the Planning and Coordinating Committee for 2002-03. He presently serves as CCOLA's representative on the International Federation of Accountants (IFAC) - Public Sector Committee - Consultation Group. The Office, through its membership in the CCOLA, has staff participating on other various CCOLA committees established to address specific issues of common concern.

The Office is actively involved in assisting in the development of public sector accounting and auditing standards in Canada. Mr. John Noseworthy was recently selected to serve as a member of the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants (CICA). This is the Board which issues recommendations and guidance with respect to matters of accounting in all areas of the public sector in Canada. In addition, the Office provides comments on various accounting and auditing issues being researched by the CICA.

We are pleased to note that many of our staff are actively involved in support of the various professional accounting bodies in which they hold membership. Mr. David White, Mr. Kevin Antle and Mr. Trevor McCormick are members of the CGA Newfoundland and Labrador Board of Governors. Mr. David White is also the Newfoundland and Labrador representative on the CGA Canada Board of Directors. Ms. Lisa Palmer and Mr. Scott Walters are members of committees of the Institute of Chartered Accountants of Newfoundland. Mr. Jim Winsor is the Certified Management Accountants' representative on the Public Accountants' Licensing Board.

Other Matters

The following are additional matters relating to the Office:

7.1 Public Accounts Committee Hearings

The House of Assembly's Public Accounts Committee is appointed under the Standing Orders of the House of Assembly. The Committee is comprised of four Government Members and three Opposition Members. The Chair of the Committee is elected from the Opposition Members and the Vice-Chair is elected from the Government Members.

During the year the Public Accounts Committee held public hearings on: the C.A. Pippy Park Commission; A Review of Protocol Expenditures; and Coastal Labrador Marine Services. These reports were included in the Office's 2001 *Report to the House of Assembly on Reviews of Departments and Crown Agencies.*

In March 2003 , the Public Accounts Committee made a resolution that "... *the Auditor General be asked to consider performing an audit of the Regional Economic Development Boards in the Province ...*". Further to this resolution, audits were performed of three zonal boards during the year. As requested by the Public Accounts Committee, the results of my work were included in my *Report to the House of Assembly on Reviews of Departments and Crown Agencies.*

7.2 Eastern Conference of Legislative Auditors (ECOLA)

The Office will host the annual meeting of the Eastern Conference of Legislative Auditors of Canada in St. John's in July 2004. ECOLA meets each year and is comprised of the Auditors General and senior staff members from all of the Atlantic Provinces and Quebec. The Group serves to promote and support professional legislative auditing within all of the legislative audit offices in eastern Canada.

7.3 Involvement of Treasury Board Secretariat in Office Operations

In March 2003, the Auditor General wrote the former Speaker of the House of Assembly, as Chair of the Commission of Internal Economy, outlining concerns relating to interference by Treasury Board Secretariat and the effect the interference had on the operations of the Office of the Auditor General. These concerns stemmed from two matters, the details of which follow.

Other Matters

1. The 2003-04 Budget of the Office of the Auditor General

Contrary to the process outlined in the *Auditor General Act*, Treasury Board Secretariat made an adjustment which resulted in a reduction of $101,600 in the Office's approved Information Technology budget.

As indicated to the former Speaker, under Section 33 of the *Auditor General Act*, the Office's budget is submitted to the Commission of Internal Economy for review, approval and subsequent inclusion in the Estimates of the Province. On 4 December 2002, a meeting was held with the Commission to provide information about the Office's proposed 2003-04 budget and to answer Members' questions. The Office was informed by the Clerk of the House of Assembly on 3 March 2003 that the Commission approved the budget request as submitted and without adjustment.

By way of background, the Office received notification from the Director of Information Technology Management, Treasury Board Secretariat on 7 March 2003 that the Secretariat had decided to reduce the Information Technology budget by $101,600. The Auditor General wrote a letter to the Secretary to Treasury Board on 10 March 2003 explaining that the budget had been approved by the Commission of Internal Economy. In the letter, it was requested that the Secretary ensure the Estimates for the Office for the 2003-04 fiscal year were made consistent with the amount approved by the Commission. However, when a copy of the 2003-04 Estimates document was received, it was determined that the budget had been reduced by $101,600.

While there is a concern about the impact of reduced funding on Office operations, there is more concern about the apparent lack of regard for the authority of the Commission and the provisions of the *Auditor General Act* which guarantees the independence of my Office.

2. Recruitment of Senior Official

When operational requirements allow, the Office has always provided staff with a leave of absence for up to one year to pursue other potential careers or professional development opportunities.

In January 2003, a discussion was held with a senior official in the Office, relating to a request for a one year leave of absence to take a position at Treasury Board Secretariat. The Auditor General explained to this individual that, because of the operational issues relating to this very senior position (i.e. one of only three positions which reports directly to the Auditor General), the leave could not be approved. Shortly after this discussion the Secretary to Treasury Board called the Auditor General, asking if the Office would reconsider the request. It was explained to the Secretary that the individual was an integral part of senior management and that from an operational perspective the request could not be approved. At that point the matter was considered to be concluded.

However, on 25 March 2003, the individual again requested a one year leave of absence to assume a position with Treasury Board Secretariat. Again, it was explained to the individual why, based on operational issues, the requested leave could not be approved. When asked why the request was being made again, the individual provided a copy of a letter dated 24 March 2003 from the Secretary to Treasury Board offering a "contractual position" at current salary for up to one year. On the strength of the letter from the Secretary to Treasury Board, on 27 March 2003 the individual tendered a resignation.

It is absolutely unacceptable for the Secretary to Treasury Board to offer a member of the Office's staff a contractual position given that the Secretary was well aware of the Office's concerns relating to the impact such action would have on its operational requirements.

These matters negatively impact the operations of the Office and undermine the independence of the Auditor General as an Officer of the House of Assembly. Such interference or perceived interference leaves the impression that the Treasury Board Secretariat has authority over the operations of the Office of the Auditor General and severely diminishes the independence and integrity of the Office and the authority of the House of Assembly itself.

Other Matters

Auditor General Act

1. This Act may be cited as the *Auditor General Act.*

2. (1) In this Act

(a) "agency of the Crown" means an authority, board, commission, foundation, agency, corporation, association, institute or other body of persons, whether incorporated or unincorporated, 50% or more of the members of which or 50% or more of the members of the board of management or board of directors of which,

(i) are appointed by an Act of the Legislature or by the Lieutenant-Governor in Council, or

(ii) where not so appointed, in the discharge of their duties are public officers or servants of the Crown or are responsible to the Crown for the proper discharge of their duties;

(b) "audit" means an audit or examination of accounts of public money that may be made by the auditor general under this Act;

(c) "auditor general" means the Auditor General of Newfoundland and Labrador appointed under section 4;

(d) "commission" means the Commission of Internal Economy of the House of Assembly appointed under the authority of *The Internal Economy Commission Act*;

(e) "Crown controlled corporation" means a corporation that is not an agency of the Crown and having

(i) 50% or more of its issued and outstanding shares vested in the Crown or in the name of a minister of the Crown, or

(ii) the appointment of a majority of its board of directors made or approved by the Lieutenant-Governor in Council;

(f) "office" means the Office of the Auditor General established under section 3; and

(g) "public money" means all money received, held or collected for or on behalf of the province by a minister of the Crown or other public officer in his or her official capacity or by a person authorized to receive, hold or collect that money, and includes

(i) all revenues of the province,

(ii) money borrowed by the province or received through the issue and sale of securities, and

(iii) money paid to the province for a special purpose.

Appendix I

(2) Words and expressions used in this Act and not defined in subsection (1) have the same meaning as in the *Financial Administration Act*.

3. There is established a department of the public service of the province called the Office of the Auditor General, over which the auditor general shall preside.

4. (1) The Lieutenant-Governor in Council shall, by commission under the Great Seal of the province, appoint a qualified auditor to be the officer called the Auditor General of Newfoundland and Labrador.

(2) The person appointed to the position of auditor general under this section must be confirmed in office as auditor general by the introduction in the House of Assembly of a resolution within 10 days after his or her appointment and if the House of Assembly is not sitting within 10 days after the commencement of the next ensuing Session of the House of Assembly or within 10 days after the House of Assembly resumes sitting following an adjournment of the House of Assembly.

(3) The auditor general is by virtue of his or her position an officer of the House of Assembly.

5. (1) The auditor general holds office for a term of 10 years but may be removed for cause by the Lieutenant-Governor in Council following the passing by the House of Assembly of a resolution requesting the Lieutenant-Governor in Council to do so.

(2) Once having served as auditor general, a person is not eligible for reappointment to that office.

6. In the event of the absence or incapacity of the auditor general or where the Office of Auditor General is vacant, the Lieutenant-Governor in Council may appoint a person temporarily to perform the duties of the auditor general.

7. The auditor general shall be paid a salary out of the Consolidated Revenue Fund at a rate set by the Lieutenant-Governor in Council and is entitled to the privileges of office of a deputy minister.

8. The auditor general shall not hold an office of profit or shall not act as trustee for profit for another person, other than his or her office as auditor general or engage in an occupation for reward outside the duties of his or her office.

9. (1) Before entering upon his or her duties, the auditor general shall

(a) take or make and sign the Oath or Affirmation of Allegiance under the *Oaths of Office Act*; and

(b) take or make and sign the following oath or affirmation of office:

"I, ..., do solemnly swear (or solemnly, sincerely and truly declare and affirm) that I will faithfully, truly, impartially, honestly, justly and to the best of my judgment, skill and ability, execute and perform the powers, duties and functions reposed in or required of me as auditor general under the *Auditor General Act* or another Act and that I will observe and comply with the laws of Canada and Newfoundland and Labrador." (Where an oath is taken add "So help me God").

(2) The oaths or affirmations referred to in subsection (1) shall be administered by the Speaker or by the Clerk of the House of Assembly.

10. The auditor general is the auditor of the financial statements and accounts of the province and shall make those examinations and inquiries that the auditor general considers necessary to enable him or her to report as required by this Act.

11. The auditor general shall examine the several financial statements required by the *Financial Administration Act* to be included in the public accounts of the province, and any other statement that is required to be audited by the auditor general under that Act or another statement that the Minister of Finance may present for audit and shall express his or her opinion as to whether the financial statements present fairly the financial position, results of operations and changes in the financial position of the province in accordance with the disclosed accounting policies of the provincial government and on a basis consistent with that of the preceding year, together with reservations the auditor general may have.

12. (1) The auditor general shall as he or she considers necessary but at least annually report to the House of Assembly on

(a) the work of the office;

(b) whether, in carrying out the work of the office, the auditor general received all the information including reports and explanations the auditor general required;

(c) the results of the auditor general's examination of the financial statements referred to in section 11; and

(d) audits, examinations and inquiries performed under this Act.

(2) A report of the auditor general under subsection (1) shall include the results of the auditor general's examination of the accounts of the province, and shall call attention to anything the auditor general considers significant, including instances where

(a) collections of public money

(i) have not been effected as required under various Acts and regulations, directives or orders under those Acts,

(ii) have not been fully accounted for, or

(iii) have not been properly reflected in the accounts;

(b) disbursements of public money

(i) have not been made in accordance with the authority of a supply vote, or relevant Act,

(ii) have not complied with regulations, directives or orders applicable to those disbursements,

(iii) have not been properly reflected in the accounts, or

(iv) have not been made for the purposes for which it was appropriated;

(c) accounts have not been faithfully and properly kept;

(d) assets acquired, administered or otherwise held are not adequately safeguarded or accounted for;

(e) accounting systems and management control systems that relate to revenue, disbursements, the safeguarding or use of assets or the determination of liabilities were not in existence, were inadequate or had not been complied with; or

(f) factors or circumstances relating to an expenditure of public money which in the opinion of the auditor general should be brought to the attention of the House of Assembly.

(3) Paragraph (2)(f) shall not be construed as entitling the auditor general to question the merits of policy objectives of the government.

13. (1) Each report of the auditor general referred to in section 12 shall be submitted to the Speaker of the House of Assembly and the Speaker shall table each report before the House of Assembly immediately after receipt of the report by him or her or, where the House of Assembly is not then in Session, on the 1st day of the commencement of the next ensuing Session of the House of Assembly or on the 1st day after the House of Assembly resumes sitting following an adjournment of the House of Assembly.

(2) The annual report of the auditor general shall be submitted on or before January 31 following the close of the fiscal year to which the report relates.

14. (1) Where an auditor has not been appointed to audit an agency of the Crown or a Crown controlled corporation, the auditor general shall be the auditor.

(2) Where the auditor of an agency of the Crown or of a Crown controlled corporation is other than the auditor general, the auditor shall

(a) deliver to the auditor general after completion of the audit a copy of the auditor's report, his or her recommendations to management and a copy of the audited financial statements of the corporation or agency;

(b) make available immediately to the auditor general, when so requested by the auditor general, all working papers, reports, schedules and other documents in respect of the audit; and

(c) provide immediately to the auditor general, when so requested by the auditor general, a full explanation of work performed, tests and examinations made and the results obtained, and other information relating to the audit within the knowledge of that auditor in respect of the agency or corporation.

(3) Where the auditor general is of the opinion that the information, explanation or document that is provided, made available or delivered to the auditor general by the auditor referred to in subsection (2) is insufficient to permit the auditor general to exercise his or her powers or duties under this Act, the auditor general may conduct or cause to be conducted an additional examination and investigation of the records and operations of the agency of the Crown or the Crown controlled corporation that the auditor general considers necessary.

15. (1) Where during the course of an audit, the auditor general becomes aware of an improper retention or misappropriation of public money or another activity that may constitute an offence under the *Criminal Code* or another Act, the auditor general shall immediately report the improper retention or misappropriation of public money or other activity to the Lieutenant-Governor in Council.

(2) In addition to reporting to the Lieutenant-Governor in Council under subsection (1), the auditor general shall attach to his or her annual report to the House of Assembly a list containing a general description of the incidents referred to in subsection (1) and the dates on which those incidents were reported to the Lieutenant-Governor in Council.

16. (1) The auditor general may, where in his or her opinion such an assignment does not interfere with the auditor general's primary responsibilities under this Act, whenever the Lieutenant-Governor in Council so requests or the House of Assembly or the Public Accounts Committee by resolution so requires, inquire into and report on a matter relating to the financial affairs of the province or to public property or inquire into and report on a person or organization that has received financial aid from the government of the province or in respect of which financial aid from the government of the province is sought.

(2) Where the auditor general makes a report in accordance with subsection (1), the auditor general shall report back to either the Lieutenant-Governor in Council, the House of Assembly or the Public Accounts Committee.

17. Except as provided by another Act that expressly refers to this section, every department of government, every agency of the Crown and every Crown controlled corporation shall furnish the auditor general with information regarding its power, duties, activities, organization, financial transactions and methods of business as the auditor general requires, and the auditor general shall be given access to all books, accounts, financial records, reports, electronic data processing records, explanations, files and all other papers, things or property belonging to or in use by the department, agency of the Crown or Crown controlled corporation and necessary to the performance of the duties of the auditor general under this Act.

18. (1) The auditor general may examine a person on oath or affirmation on a matter pertinent to an account submitted to the auditor general for audit and the oath or affirmation may be administered by the auditor general to a person whom the auditor general desires to examine.

(2) In order to compel the attendance of a person under subsection(1), the auditor general may apply to a judge of the Trial Division for an order that a subpoena be issued from the court commanding the person named in the subpoena to appear before the auditor general at the time and place mentioned in the subpoena, and then and there to testify to all matters within that person's knowledge relative to an account submitted to the auditor general.

(3) Where so required, the person named in the subpoena shall produce a document, paper or thing which he or she has possession of relative to the account.

(4) A person named in a subpoena issued under this section is entitled to reasonable expenses at the time of the service.

19. Notwithstanding sections 17 and 18, the auditor general shall not be permitted access to reports arising out of the conduct of lawful police investigations or to information in the records listed in paragraphs 9(1)(b) to (f) of the *Freedom of Information Act* except for the information in the records disclosed under subsection 9(2) of that Act.

20. The auditor general may station in the offices of a department, agency of the Crown or Crown controlled corporation, an employee of the office for the purpose of enabling the auditor general to more effectively exercise or perform his or her powers and duties under this or another Act, and the department, agency of the Crown or Crown controlled corporation shall provide the necessary office accommodation and facilities for employees so stationed.

21. The auditor general and each person employed in the office or appointed or engaged to assist the auditor general for a limited period of time or in respect of a particular matter under section 28 shall keep confidential all matters that come to his or her knowledge in the course of his or her employment or duties under this Act and shall not communicate those matters to another person, except as may be required in connection with the discharge of his or her responsibilities under this Act or under the *Criminal Code.*

22. Audit working papers of the office shall not be laid before the House of Assembly or a committee of the House of Assembly.

23. (1) Those auditors and employees that are necessary to enable the auditor general to perform his or her duties under this or another Act shall be appointed or employed in the manner authorized by law and are members of the public service of the province.

(2) The personnel management policies of the Treasury Board as they relate to the public service of the province apply to the office.

(3) The *Conflict of Interest Act* applies to the auditor general and every person employed in the office.

24. (1) Every person employed in the office, shall, before performing a duty as an employee in the office

(a) take or make and sign the Oath or Affirmation of Allegiance under the *Oaths of Office Act;* and

(b) take or make and sign the following oath or affirmation of office:

> "I ...., do swear (or solemnly, sincerely and truly, declare and affirm) that I will faithfully, honestly and impartially to the best of my knowledge, skill and ability perform my duties as an employee in the Office of the Auditor General and that I will observe and comply with the laws of Canada and Newfoundland and Labrador and except as I may be legally required, I will not disclose or give to a person information or a document that comes to my knowledge or possession by reason of my being an employee in the Office of the Auditor General." (In the case where an oath is taken add "So help me God").

(2) The oaths or affirmations referred to in subsection (1) shall be administered by the auditor general or his or her designate.

(3) The auditor general may require a person or class of persons appointed to assist the auditor general for a temporary period of time or in respect of a particular matter under section 28 to take or make and subscribe the oaths or affirmations referred to in subsection (1).

(4) A copy of each oath or affirmation administered to an employee of the office under subsection (1) shall be kept in the files of the office.

(5) The refusal of an employee of the office to take or make and subscribe to the oaths or affirmations or the failure to adhere to the oaths or affirmations required by subsection (1) may be considered as cause for dismissal.

25. (1) All persons employed in the office are employees for the purposes of the *Public Service Pensions Act, 1991* and are entitled to all the benefits under that Act.

(2) Notwithstanding subsection (1), the LieutenantGovernor in Council may by order permit the auditor general to participate in the *Public Service Pensions Act, 1991* or may by order stipulate other pension arrangements for the auditor general upon his or her appointment under this Act.

26. The auditor general may delegate in writing to an employee of the office authority to exercise a power or perform a duty of the auditor general other than reporting to the House of Assembly.

27. The auditor general may appoint an employee of the office as acting auditor general while the auditor general is absent from the province.

28. The auditor general may engage, on a fee basis, a person to act as his or her agent for the purpose of conducting an audit or examination that the auditor general is empowered to conduct or to perform a service that the auditor general considers necessary for a purpose related to the exercise or performance of the auditor general's powers and duties under this or another Act.

29. The auditor general, persons employed in the office and those persons employed or engaged by the auditor general under the authority of section 28 are not liable in a proceeding for an act done or not done or for a statement or report made by them in good faith in connection with a matter they are authorized or required to do under this Act.

30. Subject to the *Public Tender Act*, the auditor general may engage within the limits of the appropriation approved by the Legislature for his or her office and without the approval of the Treasury Board the professional services, including counsel, consultants, accountants and other experts and acquire goods that the auditor general considers necessary for a purpose related to the exercise or performance of his or her powers and duties under this or another Act.

31. Where the auditor general

(a) considers it necessary to report for the information of the Lieutenant-Governor in Council; or

(b) is required to report to the Lieutenant-Governor in Council for the purposes of this Act, especially in respect of a matter relating to the office,

the report is made through the Minister of Finance.

32. (1) The Commission shall appoint a qualified auditor to audit annually the office.

(2) The auditor appointed under subsection (1), has the same powers and shall perform the same duties in relation to an audit of the office that the auditor general has or performs in relation to an audit performed under this Act.

(3) The auditor appointed under subsection (1) shall submit his or her report to the commission and send a copy to the auditor general.

(4) The Speaker of the House of Assembly shall table the report of the auditor under this section before the House of Assembly immediately after receiving the report by him or her or where the House of Assembly is not then in Session, on the 1st day of the commencement of the next ensuing Session of the House of Assembly or the 1st day after the House of Assembly resumes sitting following an adjournment of the House of Assembly.

33. (1) The auditor general shall submit annually to the commission for its approval estimates of the sums that will be required to be provided by the Legislature for the payment of the salaries, allowances and expenses of the office under this Act during the next ensuing fiscal year.

(2) The commission shall review and may alter as it considers proper the estimates submitted under subsection (1) and, upon completion of the review, the Speaker of the House of Assembly shall submit the estimates as approved by the commission to the House of Assembly for the purpose of inclusion in the estimates of the province for approval by the Legislature.

34. (1) Where the auditor general conducts examinations or audits an agency of the Crown or Crown controlled corporation, the auditor general may charge fees for professional services rendered by his or her office.

(2) The fees referred to in subsection (1) shall be established on a basis that may be approved by the Lieutenant-Governor in Council.

(3) The fees charged and collected by the auditor general under this section shall be paid into the Consolidated Revenue Fund.

35. (1) Persons in the employ of the Department of the Auditor General at the commencement of this Act are considered to have been appointed in accordance with this Act.

(2) Upon the commencement of this Act, the Department of the Auditor General is considered to be and is continued in the name of the Office of the Auditor General under this Act.

(3) A reference in another Act to the auditor general appointed under the *Financial Administration Act* or a reference in another Act to the auditor general shall be considered to be a reference to the auditor general appointed under this Act.

36. (1) Paragraph 2(a) of the *Financial Administration Act* is repealed and the following substituted:

"(a) "auditor general" means the Auditor General of Newfoundland and Labrador appointed under the *Auditor General Act* and includes all employees acting under the auditor general's direction;".

(2) Sections 58 to 71 of the Act are repealed.

(3) Subsection 83(1) of the Act is amended by striking out the words "and the Auditor General" and the words "or the Auditor General".

Appendix I

Appendix II

Departmental Audits Performed by the Office of the Auditor General

General Government Sector

- Consolidated Fund Services
- Executive Council
- Finance
- Government Services and Lands
- Labrador and Aboriginal Affairs
- Legislature
- Public Service Commission
- Works, Services and Transportation

Resource Sector

- Environment
- Fisheries and Aquaculture
- Forest Resources and Agrifoods
- Industry, Trade and Rural Development
- Mines and Energy
- Tourism, Culture and Recreation

Social Sector

- Education
- Health and Community Services
- Human Resources and Employment
- Justice
- Labour
- Municipal and Provincial Affairs
- Newfoundland and Labrador Housing Corporation
- Youth Services and Post-Secondary Education

Appendix II

Appendix III

Agencies of the Crown and Other Entities Whose Financial Statement Audits are Performed by the Office of the Auditor General

Entity	Year End	Auditors Report
Department of Education		
Newfoundland and Labrador Education Investment Corporation	31 March 2003	13 June 2003
Provincial Information and Library Resources Board	31 March 2003	26 May 2003
Executive Council		
Labrador Transportation Initiative Fund	31 March 2003	13 June 2003
Provincial Advisory Council on the Status of Women - Newfoundland and Labrador	31 March 2003	16 June 2003
Department of Finance		
Hotel Buildings Limited	31 March 2003	5 May 2003
Newfoundland Government Fund Limited	31 December 2002	28 March 2003
Newfoundland and Labrador Government Sinking Fund	31 March 2003	26 June 2003
Newfoundland and Labrador Industrial Development Corporation	31 March 2003	16 May 2003
Newfoundland and Labrador Municipal Financing Corporation	31 March 2003	6 June 2003
Newvest Realty Corporation	31 December 2002	21 February 2003
Province of Newfoundland and Labrador Pooled Pension Fund	31 December 2002	14 March 2003
Department of Forest Resources and Agrifoods		
Livestock Owners Compensation Board	31 March 2003	12 June 2003
Newfoundland and Labrador Crop Insurance Agency	31 March 2003	12 June 2003
Department of Government Services and Lands		
Consumer Protection Fund for Prepaid Funeral Services	31 March 2003	27 May 2003
Public Accountants' Licensing Board	31 December 2002	4 June 2003
Department of Industry, Trade and Rural Development		
Business Investment Corporation	31 March 2003	20 June 2003

Appendix III

Agencies of the Crown and Other Entities Whose Financial Statement Audits are Performed by the Office of the Auditor General

Entity	Year End	Auditors Report
Department of Justice		
Director of Support Enforcement	31 March 2003	6 June 2003
Newfoundland and Labrador Legal Aid Commission	31 March 2003	18 June 2003
Office of the High Sheriff	31 March 2003	4 June 2003
Registrar of the Supreme Court of Newfoundland and Labrador	31 March 2003	17 June 2003
Department of Mines and Energy		
Bull Arm Site Corporation	31 March 2003	30 May 2003
Department of Municipal and Provincial Affairs		
Newfoundland and Labrador Housing Corporation	31 March 2003	20 June 2003
Department of Tourism, Culture and Recreation		
Heritage Foundation of Newfoundland and Labrador	31 March 2003	29 May 2003
Newfoundland and Labrador Arts Council	31 March 2003	6 June 2003
Newfoundland and Labrador Heritage Corporation	31 March 2003	18 June 2003
Special Celebrations Corporation of Newfoundland and Labrador Inc.	31 March 2003	13 June 2003
Department of Works, Services and Transportation		
C.A. Pippy Park Commission	31 March 2003	10 June 2003
Department of Youth Services and Post-Secondary Education		
Newfoundland and Labrador Student Investment and Opportunity Corporation	31 March 2003	20 June 2003
Private Training Corporation	31 December 2002	7 March 2003

Appendix IV

Agencies of the Crown and Other Entities Whose Financial Statement Audits are Performed by Private Sector Auditors

Entity	Year End	Auditors Report
Department of Education		
Literacy Development Council of Newfoundland and Labrador	31 March 2003	12 July 2003
School Boards		
Conseil Scolaire Francophone Provincial de Terre - Neuve et du Labrador	30 June 2002	23 August 2002
District #1 - Labrador	30 June 2002	2 August 2002
District #2 - Northern Peninsula/Labrador South	30 June 2002	20 September 2002
District #3 - Corner Brook/Deer Lake/St. Barbe	30 June 2002	26 August 2002
District #4 - Cormack Trail	30 June 2002	16 September 2002
District #5 - Baie Verte/Central/Connaigre	30 June 2002	24 September 2002
District #6 - Lewisporte/Gander	30 June 2002	18 September 2002
District #7 - Burin	30 June 2002	20 September 2002
District #8 - Vista	30 June 2002	19 September 2002
District #9 - Avalon West	30 June 2002	29 August 2002
District #10 - Avalon East	30 June 2002	25 November 2002
Department of Environment		
Multi-Materials Stewardship Board	31 March 2003	23 May 2003
Multi-Material Stewardship Board Waste Management Trust Fund	31 March 2003	23 May 2003
Workplace Health, Safety and Compensation Commission	31 December 2002	7 March 2003
Department of Finance		
Newfoundland Liquor Corporation	31 March 2003	4 August 2003

Appendix IV

Agencies of the Crown and Other Entities Whose Financial Statement Audits are Performed by Private Sector Auditors

Entity	Year End	Auditors Report
Department of Forest Resources and Agrifoods		
Newfoundland and Labrador Farm Products Corporation	31 March 2003	13 May 2003
Department of Government Services and Lands		
Board of Commissioners of Public Utilities	31 March 2003	20 May 2003
Credit Union Deposit Guarantee Corporation	31 December 2002	21 March 2003
Office of the Commissioner of Petroleum Products Pricing	31 March 2003	25 July 2003
Department of Health and Community Services		
Newfoundland and Labrador Centre for Health Information	31 March 2003	28 July 2003
Newfoundland and Labrador Cancer Treatment and Research Foundation	31 March 2003	18 July 2003
Provincial Perinatal Program	31 March 2003	23 June 2003
Public Health Laboratory	31 March 2003	10 July 2003
Community Health Boards		
Central Regional Health and Community Services Board	31 March 2003	7 July 2003
Eastern Regional Health and Community Services Board	31 March 2003	6 June 2003
St. John's Regional Health and Community Services Board	31 March 2003	12 June 2003
Western Regional Health and Community Services Board	31 March 2003	10 June 2003
Regional Hospital Boards		
Avalon Health Care Institutions Board	31 March 2003	16 July 2003
Central East Health Care Institutions Board	31 March 2003	6 June 2003
Central West Health Corporation	31 March 2003	26 June 2003
Grenfell Regional Health Services Board	31 March 2003	23 May 2003
Health Care Corporation of St. John's	31 March 2003	20 June 2003
Health Labrador Corporation	31 March 2003	2 August 2003
Peninsulas Health Care Corporation	31 March 2003	18 July 2003
Western Health Care Corporation	31 March 2003	17 June 2003
Nursing Homes		
St. John's Nursing Home Board	31 March 2003	4 July 2003

Appendix IV

Agencies of the Crown and Other Entities Whose Financial Statement Audits are Performed by Private Sector Auditors

Entity	Year End	Auditors Report
Department of Industry, Trade and Rural Development		
Newfoundland Hardwoods Limited	31 March 2003	29 June 2003
Newfoundland Ocean Enterprises Limited	31 March 2003	30 June 2003
Department of Mines and Energy		
Churchill Falls (Labrador) Corporation Limited	31 December 2002	28 January 2003
Gull Island Power Company Limited	31 December 2002	28 January 2003
Lower Churchill Development Corporation Limited	31 December 2002	28 January 2003
Newfoundland and Labrador Hydro Electric Corporation	31 December 2002	14 February 2003
Twin Falls Power Corporation Limited	31 December 2002	28 January 2003
Department of Municipal and Provincial Affairs		
Municipal Assessment Agency Inc.	31 March 2003	16 May 2003
Department of Tourism, Culture and Recreation		
Marble Mountain Development Corporation	30 April 2003	24 June 2003
Marble Mountain Management Corporation	30 April 2003	20 June 2003
Newfoundland and Labrador Film Development Corporation	31 March 2003	9 May 2003
Department of Youth Services and Post-Secondary Education		
Memorial University of Newfoundland	31 March 2003	6 June 2003
Memorial University of Newfoundland Pension Plan	31 March 2003	30 May 2003
The College of the North Atlantic	31 March 2003	24 June 2003